

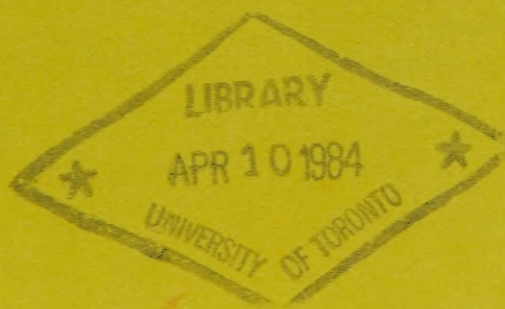
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The system of government financial management statistics



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FOREWORD

This publication is an operations manual for the Financial Management System of Government Statistics. It defines the scope and precise nature of data currently available for government financial transactions and the accounting concepts which underlie that data.

The Financial Management System of Government Statistics comprises financial and employment data on government and government-owned enterprises at the federal, provincial/territorial and local levels. It is the only system which permits inter-provincial or inter-level comparisons on a programmatic basis. As such, it is used as the basis for short-term economic forecasts, detailed comparisons of past activity, and the operation of various federal-provincial financial arrangements including the provincial equalization program. The manual describes the current system. Provision has been made for modification as is required to reflect the changing nature of the universe being described, changes in the underlying concepts and the needs of users.

At present, the system pertains, exclusively, to governments and government-owned enterprises. These constitute the major portion of the public sector in Canada. However, there remains a sizeable body of important institutions (universities, hospitals, cultural agencies, etc.) which also pertain to that sector and yet cannot readily be described as "government" per se or "government enterprises".

Efforts are underway to expand the scope of the Financial Management System to include many of these non-government aspects of the public sector, thereby providing a clearer picture of the sector as a whole. Changes from this effort will be included in future editions of this manual.

I hope that the concepts and framework of the Financial Management System described in this manual will enhance the understanding Canadians have of the public sector and facilitate planning and analysis in the public interest.

Overall direction for preparation of the manual and most of the writing was provided by Mr. A.G. Kerr of the Public Finance Division, assisted by senior personnel within the Division. Comments and specific suggestions on its various drafts were provided by statistical agencies in the provinces and territories as well as by senior officials of the Department of Finance.

MARTIN B. WILK
Chief Statistician of Canada.

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TABLE OF CONTENTS

<u>Part</u>	<u>Page</u>
I Introduction	1
II Historical Background	7
III The Statistical Coverage of the System	
Introduction	14
The General Government Universe	15
The Government Enterprise Universe	18
Provincial and Territorial Liquor Authorities	21
Trusts	23
IV Sources of Information	
General Government Data	26
Government Enterprise Data	30
Government Employment Data	31
V General Government Revenue and Expenditure	
Introduction	33
Gross General Revenue and Expenditure	34
Refund of revenue and recovery of expenditure	35
Tax rebates and/or credits	36
Sales revenue	38
Commissions	38
Loans treated as expenditure	38
Special cases affecting local government	39
Intergovernment Transactions	39
Transactions within an individual government	40
Intergovernment transfers	42
Intergovernment purchases and sales	44
Intergovernment fiscal arrangements	45
Transactions between General Government and Government Enterprises	49
Transactions with Trusts Excluded from the Financial Management System	50
VI Classification of General Government Revenue and Expenditure	
Revenue	51
Own Source Revenue	53
Income taxes	53
Property and related taxes	53
Consumption taxes	54
Health and social insurance levies	56
Miscellaneous taxes	58
Natural resource revenue	59

	<u>Page</u>
Privileges, licences and permits	61
Sales of goods and services	62
Return on investment	63
Other revenue from own sources	64
Transfers	65
General purpose transfers from other levels of government and their enterprises	65
Specific purpose transfers from other levels of government and their enterprises	66
Expenditure	66
General services	67
Protection of persons and property	69
Transportation and communications	72
Health	74
Social services	76
Education	79
Resource conservation and industrial development	80
Environment	83
Recreation and culture	85
Labour, employment and immigration	86
Housing	86
Foreign affairs and international assistance	88
Regional planning and development	89
Research establishments	90
General purpose transfers to other levels of government ..	90
Transfers to own enterprises	90
Debt charges	90
Other	91
 VII General Government Assets and Liabilities and Source and Application of Funds	
Introduction	92
Financial Assets	96
Cash on hand and on deposit	96
Receivables	96
Advances	97
Securities	97
Other financial assets	98
Liabilities	98
Bank overdrafts	98
Payables	98
Bank notes in circulation	98
Advances	98
Treasury bills	99
Savings bonds	99
Bonds and debentures	99
Other securities	99

	<u>Page</u>
Deposits	99
Other liabilities	100
Excess of financial assets over liabilities or (excess of liabilities over financial assets)	100
Source and Application of Funds	101
Financial management surplus of deficit for the period ...	102
Changes in the classification of entities	103
Changes in accounting policies and practices	103
Changes in borrowing	103
Changes in advances and in security holdings	103
Changes in other assets and liabilities	103
Discrepancy	104
VIII Classification of Financial Management Statistics in Economic Terms	
Introduction	105
Financial Management Economic Classifications	
Revenue	110
Expenditure	110
Functional Classification of National Accounts	
Expenditure	111
Note on conceptual differences between the Financial Management System and the System of National Accounts	112
IX Consolidated Government Finance	115
X Government Enterprises	
Introduction	120
Income	123
Expenses	124
Unappropriated Surplus	125
Assets, Liabilities and Net Worth	126
XI Government Employment	128

	<u>Page</u>
<u>APPENDICES</u>	
A. General Government	131
<u>Table</u>	
1. Gross General Revenue	131
2. Gross General Expenditure	135
3. Financial Assets	139
4. Liabilities	142
5. Source and Application of Funds	145
B. Government Enterprises	147
<u>Table</u>	
6. Income and Expense	147
7. Statement of Unappropriated Surplus	149
8. Assets, Liabilities and Net Worth	150
C. Classification of Financial Management Statistics in Economic Terms	157
9. Gross General Revenue	157
10. Gross General Expenditure	158

PART I

INTRODUCTION

1.00 The System of Government Financial Management Statistics is a statistical framework designed to permit the production of statistical series which are both consistent and compatible and which encompass the financial transactions and related data of all governments in Canada. The Financial Management System was described in the first edition of this publication issued in 1972 with amendments in 1974. Since then the publication has been under continuous review. Suggestions for detailed improvements have been received from many sources, and requests for clarification or explanation have disclosed weaknesses in the original publication.

1.01 Over the past decade governments have introduced a number of programs which incorporate new types of financial activities. This edition describes how these activities are dealt with in the Financial Management System. By devoting greater attention to underlying concepts and by amending the text to improve clarity and simplicity, this edition is intended to make the Financial Management System easier to understand.

1.02 The following publications contain the series currently produced in conformity with the Financial Management System.

Annuals

Consolidated Government Finance (Catalogue 68-202)

Federal Government Finance (Catalogue 68-211)

Provincial Government Finance - Revenue and Expenditure (Catalogue 68-207)

Provincial Government Finance - Assets, Liabilities, Source and Application of Funds (Catalogue 68-209)

Local Government Finance (Catalogue 68-204)

Federal Government Enterprise Finance (Catalogue 61-203)

Provincial Government Enterprise Finance (Catalogue 61-204)

The Control and Sale of Alcoholic Beverages in Canada (Catalogue 63-202)

Federal Government Employment in Metropolitan Areas (Catalogue 72-205)

Quarterlies

Federal Government Employment (Catalogue 72-004)

Provincial Government Employment (Catalogue 72-007)

Local Government Employment (Catalogue 72-009)

CANSIM (Canadian Socio-Economic Information Management System)

Government Finance in Accordance with the System of National Accounts
(replaces Catalogue 68-001; quarterly data from 1970 onwards)

Matrix 2711 Federal Government Finance

2712 Provincial Government Finance

2713 Local Government Finance

2714 Canada and Quebec Pension Plans

2715 Hospital Finance

Government Employment (Summary data)

Matrix 2717 Federal Government - Quarterly from 1956

2718 Federal Government - Monthly from 1974

2719 Federal Government - Census Metropolitan Areas -
Annual from 1961

2720 Federal Government - Military Personnel -
Monthly from 1969

2722 Provincial and Territorial Governments -
Monthly from 1970

2725 Local Governments - Monthly from 1967

2726 Local Governments - Major Urban Areas -
Monthly from 1967

Control, Taxation and Sale of Alcoholic Beverages (Annually from 1950)

Matrix 2728 All Governments

2729 Government of Canada

2730 Sales by Value and per Capita

2731 Sales by Volume and per Capita

Provincial and Territorial Governments - Principal Revenue Sources and
Expenditure Functions - Annually for the ten most recent years.

(Replaces Catalogue 68-205)

Matrices 2751 Canada Total

2752 Newfoundland

to

2763 Northwest Territories

Local Governments - Principal Revenue Sources and Expenditure

Functions - Annually for the ten most recent years.

(Replaces Catalogue 68-203)

Matrices 2764 Canada Total

2765 Newfoundland

to

2776 Northwest Territories

Eventually, the principal statistics in all series will be made available through CANSIM.

1.03 These publications show the activity of government in providing goods and services.

1.04 Publications dealing with governments (i.e., the general government universe described in Paragraph 3.03), report revenue by source (or type) and expenditure by major function and sub-function. Asset and liability data are reported under conventional accounting captions, with emphasis on intergovernmental transactions. Detailed information is provided on outstanding security issues and on source and application of funds.

- 1.05 Publications on the financial activities of government enterprises (as defined in Paragraph 3.08) set out income, expenditure, asset, liability and net worth data in conformity with commercial reporting practices, with emphasis on the special relationships of such entities with their parent government. The data are also presented within the framework of the Standard Industrial Classification¹ System.
- 1.06 Publications on employment provide detail on payrolls and on the number of persons employed in general government and in government enterprises.
- 1.07 The basic objective of the Financial Management System is to ensure uniform and consistent data relating to government financial transactions. Because government financial reports are based on the organizational structures and on the accounting and reporting practices of individual governments, there is little uniformity in these matters. For example, one government may discharge a function through a departmental structure, while another prefers a Crown corporation, a board, a commission or an agency. Among governments, similar departmental titles do not necessarily mean similar responsibilities, and a given operation may be regarded by an individual government as falling within one or several functions. Organizational structures change constantly as new programs are introduced, existing ones amended, and as responsibilities are assigned and reassigned. Moreover, governments employ different accounting conventions. Some report on a cash basis, others use the accrual approach and others use a combination of both

(1) Standard Industrial Classification Manual (Catalogue Number 12-501).

approaches. Adjustments can bring data produced under these various conventions to a common basis, but complete conversion to a single accounting base is not possible. Consequently, financial management statistics reflect data as reported by individual governments.

1.08 Within a given government, it is difficult to make year to year comparisons of financial transactions without numerous adjustments to the basic data. Comparisons between governments are even more difficult without standardization of data. The Financial Management System has been developed to achieve these aims. The objective is to establish from the various government financial reports statistical series which are consistent and allow valid comparisons.

1.09 Complete intergovernmental comparability of the data presented by the Financial Management System is hindered by several other factors. For example, intergovernment transactions are not always reported at the same time by both parties involved, nor do fiscal years always end at the same time. In addition, responsibilities between levels of government are shared differently and varying levels of service are provided. No method now exists for adjusting data to account for these discrepancies in service at any level or among levels of government. For the present, the resources of the Public Finance Division of Statistics Canada are being directed toward making existing measures more useful, through the development of stable concepts, definitions, classification systems and frameworks. These form the subject of this publication.

PART II

HISTORICAL BACKGROUND

2.00 The first formal report on government finance was issued by the Dominion Bureau of Statistics for the year 1919. The report dealt with municipal statistics for 50 municipalities with populations over 10,000. In the preface to this report, R.H. Coats, Dominion Statistician, wrote: "..... the first essential for comparative statistics is the adoption of a uniform system of municipal accounting and reporting. A memorandum outlining a system, and looking to co-operative action between the Dominion Bureau of Statistics and the Provincial Departments, was drawn up in the bureau in 1918 and submitted to the Provinces. It was recognized, however, that the matter was complex and far reaching in scope, and that definite action would not be feasible without careful discussion of details, such as might take place at a conference of Dominion and Provincial officials."

2.01 For many years thereafter the bureau had two goals in its activities in the field of public finance, which it pursued simultaneously: (i) the production of a set of consistent and compatible series of financial statistics for all governments in Canada and (ii) the development and implementation of a common accounting and financial reporting system by these governments. Developments in each are discussed separately.

2.02 The first Dominion-Provincial Conference on government finance statistics was held in 1933. It dealt with provincial finance statistics and asked the bureau to prepare a standard classification of accounts for use by the provinces. Reporting schedules were devised and work on the development, revision and improvement of uniform classification systems and reporting forms continued through a series of Dominion-Provincial meetings in 1943, 1945, 1947, 1952, 1953 and a series of committee meetings during the period 1954-60. The first conference on municipal statistics took place in 1937 and was followed by others in 1940, 1947, 1948, 1953, 1958 and by a series of seven meetings in the period 1967-70. Annual meetings on municipal statistics were begun in 1971. Standard reporting schedules for the provinces were issued and revised as appendices to the reports on the meetings. For municipal purposes, a manual of instructions was first issued in 1942 and was subsequently revised in 1950 and 1960. A new manual was issued in 1970.²

2.03 Nevertheless the goal of a uniform system of accounting and financial reporting for all governments in Canada remains as elusive as ever. This is confirmed by an examination of federal and provincial public accounts and municipal financial statements. Some provinces provide supplementary tables in which the data in their public accounts are recast into approximations of the financial management framework.

(2) A Financial Information System for Municipalities (Catalogues 12-532, 12-533 and 12-534).

In addition, although the annual reports provided by municipalities to provincial governments are heavily influenced by the same framework, the accounting systems and records from which they are derived remain as idiosyncratic as ever. Nor is this surprising given that the primary purpose of such systems and records is to report to the government or council that its financial affairs are being conducted in accordance with the relevant statutes and regulations; in addition the systems and records must obviously relate financial activities to administrative responsibilities. In view of the variety in size, organization and roles of governments in Canada, it is doubtful that a uniform accounting system could ever be instituted.

2.04 This has forced the bureau to develop the Financial Management System as the indispensable basis for its series on financial and related statistics of all governments. Indeed, the concepts and classifications which governments rejected for their internal purposes are now recognized by these same governments as suitable for their external dealings. This is seen not only in the secondary reporting formats referred to previously but also in the selection of the system as most appropriate for the work of the Tax Structure Committee of the 1960's, the Tri-Level Task Force on Public Finance (1974-76) and above all by its embodiment in the successive Federal-Provincial Fiscal Arrangements Acts.

2.05 The modern financial management statistical system began with resolutions adopted at the 1933 Dominion-Provincial Conference on

Provincial Finance Statistics. These included agreements that "revenues should be primarily classified by source" and that "expenditures shall be reported on the basis of the several functions of government". These resolutions confirmed the approach taken by the Dominion Bureau of Statistics in its series on municipal and provincial government finance statistics which commenced with data for 1918 and 1921 respectively.

2.06 Statistical systems are constructed to facilitate the analysis of major areas of concern. Over time, the relative importance of topics changes as does the way those topics are perceived. Consequently the classifications used to identify and describe the components of a statistical system must also change.

2.07 In its earliest form, prior to World War II, the Financial Management System depicted provincial and local governments as independent entities. (Federal activities were not included in the system until 1953.) Attention was focussed on current expenditures of own source revenues and on departmental activities. Transactions of special purpose agencies were reflected only to the extent of their net contributions to, or receipts from, their parent governments. Following the conferences of the early 1940's and the work for the Conference on Reconstruction, the government universe was more clearly delineated. A number of administrative and special agencies were included for the first time and a new classification framework was introduced to provide more detailed information on government operations. In addition, the concept of "general" revenue and expenditure (i.e. the consolidation of

current and capital transactions) was introduced in keeping with the revised concept of the government universe (see Paragraph 3.03).

2.08 In the following decades interest focussed on the development of statistical series embodying the concepts of the Financial Management System. This culminated in the production of the Government Finance Section of "Historical Statistics of Canada" (M.C. Urquhart, Editor, K.A.H. Buckley, Assistant Editor, Cambridge/Macmillan, 1965), and "Historical Review, Financial Statistics of Governments in Canada, 1952-62" (DBS Cat. 68-503, 1966), the latter being the principal statistics prepared for the Tax Structure Committee. These publications, together with the annual series of financial management statistics for each level of government and for consolidation of all levels, signalled the maturing of the Financial Management System.

2.09 At the same time, major changes were occurring in the field of public finance which were to have significant effects on the Financial Management System. Federal, provincial/territorial and local levels of government were beginning to co-operate more and more as joint programs involving varying degrees of participation by two and sometimes all three levels of government were initiated along with programs receiving most of their funding from one level of government with the service being delivered by another. Not all developments, however, were in the direction of increasing co-operation. In 1965 Quebec "opted out" of several joint federal-provincial programs and received federal income tax abatements and other fiscal compensation in lieu of the transfers specific to these programs.

2.10 These changes in government operations and relationships resulted in a major shift in emphasis in the Financial Management System. Attention was no longer focussed on the activities carried out by a government using its own resources - known as the "net general" approach. Instead the System concentrated on the total activities of a government - the "gross general" approach - including activities carried out in co-operation with or on behalf of other governments as well as contributions to other governments to perform activities on its behalf. Thus the focus shifted from the activities directly attributable to a particular government (or group of governments) to the total impact of that government's operations.

2.11 At the same time, a comprehensive review of the system's classifications was launched. Earlier reviews had been initiated by Dominion-Provincial Conferences on Provincial Finance Statistics (see Paragraph 2.02) which appointed working parties of provincial and federal officials for the purpose. On completion of the task a new Conference reviewed the work, modified it where necessary and then promulgated the results. The procedure adopted in 1965 was quite different. The vehicle chosen was the Eighth Federal-Provincial Conference on Municipal Finance Statistics held from 1966 to 1970. The working party consisted of the Governments Division of DBS (later Public Finance Division of STC). The First Session of the Conference assigned certain tasks to the working party. The Second Session reviewed the work and assigned further tasks. In all, the complete review of the classifications and of the reporting formats required seven sessions.

2.12 While the immediate results of this Conference, as embodied in "A Financial Information System for Municipalities" (STC Catalogues 12-532, 12-533 and 12-534, 1970), described the Financial Management System in terms of municipal finance, this manual provided the impetus for the production in 1972 of the publication "The Canadian System of Government Financial Management Statistics" (STC Catalogue 68-506, 1972 amended 1974), the first general description of the system.

PART III

THE STATISTICAL COVERAGE OF THE SYSTEM

Introduction

3.00 The Financial Management System is a statistical system designed to encompass the financial transactions of governments in Canada. Government comprises:

- (a) those bodies identified as governments in the Constitution Acts, 1967-1983, i.e., the federal and provincial governments;
- (b) those bodies established by the constitutional governments which are specifically identified as governments or which function as such, i.e., the territorial and municipal governments, local school authorities and special purpose bodies; and
- (c) agencies established, or acquired, and owned by any of the foregoing.

3.01 The term "agency" is used to describe the numerous and widely-varying entities created by individual governments, or by a number of governments acting jointly, to carry out certain assigned tasks. These agencies can be classified in many ways - by assigned role, by administrative format, by operational methods, etc. For the purposes of the

Financial Management System, however, only two categories are significant - agencies which are enterprises (see Paragraphs 3.08-3.13) and agencies which are specialized extensions of departmental organizations (see Paragraph 3.03(b)-(g)); these agencies are referred to as "special funds".

3.02 In describing the financial transactions of Canadian governments, the Financial Management System identifies two separate universes: the general government universe consisting of the departments or ministries with their special funds, and the government enterprise universe comprising those agencies engaged in commercial operations.

The General Government Universe

3.03 The general government universe comprises:

- (a) departments and ministries;
- (b) administrative, regulatory and other funds which perform functions similar to those of departments and which may be organized as boards, commissions, agencies or trusts (for the latter, see Paragraph 3.19);
- (c) agencies engaged in "industrial" or "commercial" type of activities primarily to service the requirements of their own governments, and agencies engaged primarily in the channelling of funds from one

level of government to another or among organizations at the same level of government, e.g., entities established by provincial legislation to help finance the capital programs of municipalities and school boards;

- (d) government-owned institutions such as those engaged in education, health and welfare services, or the administration of justice, e.g. agricultural schools, residences for handicapped persons, gaols, etc.;
- (e) social insurance schemes of a universal nature, i.e., participation is compulsory by all persons in a designated category; examples are the Canada and Quebec Pension Plans, provincial workers compensation programs and the Régie de l'assurance automobile du Québec;
- (f) public service pension plans operated by governments; where the contributions of the employer and the employees and the earnings (if any) of a public service pension plan are paid into the general revenue account of the government, then the plan forms part of the general government universe; however, where the contributions, etc. are paid into a separate fund under the control of trustees this fund is classified as a trust fund in accordance with Paragraph 3.19(1) even though all assets of the fund may have to be invested with the government concerned;
- (g) working capital funds, i.e., funds engaged primarily (if not solely) in servicing government departments and agencies.

- 3.04 The inclusion of self-sustaining entities, such as Workers' Compensation Boards, in the general government universe is sometimes questioned on the grounds that such bodies, while not meeting the criteria for enterprises, are nevertheless, quite distinct from general government. However, such entities exist to discharge a responsibility which the parent government considers to be within its mandate. They report on their operations at least annually to those governments and their responsibilities and general methods of operation can only be changed by those governments. In some cases they also require governmental approval for some of their operating procedures.
- 3.05 Excluded from the general government universe are (a) the commercial operations of government which meet the criteria of a government enterprise (see Paragraph 3.08), and (b) Trust Funds (see Paragraph 3.19).
- 3.06 The statistical coverage of all parts of the general government universe is complete within the established framework of the Financial Management System. The detailed information on government-owned institutions and working capital funds, which was deficient when the system of financial management statistics was put into effect in 1970, is now complete. The exceptions are rare and concern mainly small institutions whose financial data have little statistical significance.
- 3.07 Most governments report on their transactions in relation to a budgetary and non-budgetary framework or, as in the case of local governments, on a fund basis. The Financial Management System, however, discounts

these arrangements in favour of an all-inclusive approach. This broad coverage by the financial management series gives rise to the term "general" in respect of government revenue and expenditure.

The Government Enterprise Universe

- 3.08 Any entity separated from but owned by government which sells goods and/or services primarily on the open market and whose principal revenues derive from these sales and/or other of its own sources is classified as a government enterprise.
- 3.09 This description differs significantly from that set out in Paragraph 3.08 of the 1970 edition of this manual. The earlier version established a set of criteria with varying degrees of flexibility, but the new definition does not permit such latitude. The implications of the new definition are described in the following paragraphs.
- 3.10 Separate existence. Prima facie evidence of a separate physical existence is, at least, a separate set of accounts. In almost all cases, however, an enterprise will have its own full-time staff, which will not normally be part of the public service of its parent government, although it may be entitled to certain public service benefits, e.g., membership in a superannuation fund.

3.11 Ownership

- (a) If more than 50% of the rights of proprietorship of an entity is vested in government, then the entity is deemed to be owned by government. If the entity is incorporated, then proprietorship rights are determined on the basis of holdings of voting stock. If the entity is unincorporated, then the extent of government ownership is determined from the provisions of the statute or other instrument under which it is created or acquired.
- (b) Where majority ownership is dispersed among governments and/or their enterprises, the ownership of the entire entity and related financial statistics will be prorated on the basis of each government's (or enterprise's) investment in relation to total government/enterprise equity.
- (c) A subsidiary of an enterprise whose accounts are consolidated with those of its parent is deemed to be an enterprise. Where the accounts remain unconsolidated, the subsidiary is classified as an enterprise, if its parent has majority ownership as described above.
- (d) A final consideration is that the entity has effective, if not legal, control of all assets required for its operations. Many cases exist where such assets were originally the property of the parent government and were transferred to the entity for a nominal consideration or where the acquisition of new assets or additions to

existing assets by the entity is heavily subsidized by the parent. However, if such assets are used solely by the entity and the costs of such use are properly reflected in its accounts, then the entity meets the criterion of ownership for classification as an enterprise even though, in some cases, legal ownership of the assets remains with the parent.

3.12 Open market

- (a) Government enterprises provide goods and/or services to the general public and/or business. An entity which mainly serves the needs of its parent government or other governments is not classified as an enterprise, but as a special fund. Examples are a corporation which owns and operates the buildings, etc. which house its parent government or a corporation established by a provincial government to provide for the long term borrowing requirements of local governments.
- (b) Problems arise with government entities which service both government and non-government. Here the relative importance of the two kinds of clientele is the determinant.
- (c) In some cases it is difficult to discern the true role of a corporation. What first appears to be the provision of a good or service turns out to be more regulatory in nature. If the good or service has to be acquired in order to enjoy or acquire a second objective or to protect third parties against undesirable

consequences stemming from the acquisition or use of the original good or service, the entity providing such a good or service would not be classified as an enterprise.

- (d) It is crucial that those to whom the good or service is offered are free to acquire or reject it. Several years ago, this factor resulted in the reclassification of water supply systems from government enterprises to special funds, because once a water supply system is made available users are compelled to connect with it and to pay for such a connection.

3.13 Principal revenues. The use of an entity's pricing policies to determine its classification has fallen into disuse. It has been replaced by the requirement that normally, i.e. over a three to five year period, the revenue derived by an entity from its own sources, such as sales, interest income, rentals, licences, permits, other fees, and etc. exceed that received in the form of subsidies or other sustaining transfers. However, general subsidies provided to both public and private enterprises are excluded in applying the criterion.

Provincial and Territorial Liquor Authorities

3.14 In Canada all retail sales of alcoholic beverages are made either by provincial and territorial agencies or by vendors holding licences and permits issued by these agencies. In addition many aspects of the production, import and export of alcoholic beverages are regulated by

government. While these agencies meet the criteria for classification as government enterprises, they also have characteristics which clearly distinguish them from other enterprises.

3.15 Chief among these characteristics are their regulatory powers and their pricing policies. While the authority to issue licences and permits governing the sale, resale and consumption of alcoholic beverages has been transferred to licensing agencies within the parent governments in most jurisdictions, the liquor authorities retain extensive regulatory powers. Thus they can stipulate the alcoholic content of beverages, details of packaging, kinds of advertising, and methods of selling by non-government vendors. Most important, perhaps, is their power to set prices not only for direct sale to the public but also for the resale of beverages previously purchased from the liquor authorities by establishments such as restaurants and taverns.

3.16 Another characteristic of the liquor authorities is their pricing policies which are aimed at producing significant revenues for their parent governments. Prior to 1950, such revenues could account for 30% or more of a province's gross general revenues from own sources. Their importance diminished subsequently with the development of income and consumption taxes at the provincial level, but they still account on the average for 3% of own source revenues of the provincial and territorial governments.

3.17 This could mean that the provincial and territorial authorities are not government enterprises because the prices they set do not reflect their costs. But because they meet all the other criteria, and are obviously more than simple tax collecting and regulatory agencies, they are classified as enterprises. However, although they are also classified as enterprises in the System of National Accounts, their "profits" are classified there as indirect taxes.

3.18 The special nature of liquor authorities and a general interest in the goods they sell has resulted in a separate series of statistics describing their finances and the volume and value of the major types of beverages which they sell. These data appear annually in the publication "The Control and Sale of Alcoholic Beverages in Canada" (Catalogue 63-202).

Trusts

3.19 Governments at all levels use the term "trust" in reference to a variety of situations; for the purposes of the Financial Management System these fall into four categories as follows:

1. Trust fund

This category covers the legally constituted trust (with terms and conditions set out in a Trust Declaration) under which the independence of the beneficiary and the trustee is clear and the trustee is in full control of the trust property. Trust assets are segregated

from all others, with the result that the trust entity maintains a complete set of self balancing accounting records. For purposes of the Financial Management System all such "trusts" fall outside the government universe. Hence transactions between government and a Trust Fund are reflected in the government statistics in the same way as would be similar government transactions with any other independent transactor.

2. Quasi trust

This term is used to describe a trust which lacks one or more of the principal characteristics of a Trust Fund. In such cases the government may be the trustee or beneficiary or both, whether or not specifically designated as such. In cases like these when either the benefits arising accrue to the government in general or to a particular function of that government, or the government has free access to the balances of the trust, all the financial transactions of the trust are integrated with those of the government.

3. Trust accounts

These accounts are control accounts administered within the general accounts of a government. They are established for the purpose of segregating specific revenues which may be applied only to designated expenditures. Frequently governments record in their financial statements only the year end balances of such accounts. Since, in the Financial Management System, such accounts have no separate status, the relevant revenues, expenditures and balance sheet items

of these accounts are incorporated in the financial statistics of the government to accord with the "gross" convention (see Paragraph 5.02).

4. Trust deposits

Whereas trust accounts are directed to revenue and expenditure, control accounts are oriented towards safekeeping, surety or investment. Both, however, are normally administered within the general accounts of government. Within the Financial Management System, an increase in trust deposits is not regarded as government revenue, but simply as an increase in government liability and vice versa. Expenditures on interest in respect of interest-bearing deposits are treated as government expenditure on interest on public debt. Trust deposit balances comprise integral parts of the government liabilities.

PART IV

SOURCES OF INFORMATION

General Government Data

4.00 Revenue, expenditure, assets and liabilities of governments form the basis of the statistics produced in accordance with the Financial Management System. The principal sources for these data are the published financial reports of the various governments. While most of the federal, provincial and territorial data are obtained from the relevant public accounts, school board and municipal data are normally obtained from the annual reports issued by provincial and territorial departments of education and of municipal affairs. The latter reports, which aggregate the financial data for all municipalities in a particular province or territory, are used in conjunction with the individual reports of the larger municipalities. Data on some entities at the local level are obtained from other divisions of Statistics Canada, such as the Health Division (hospital data) and the Education, Science and Culture Division (library boards, cultural facilities, etc.). Further information required to complete coverage of the universe is obtained from financial statements of agencies, boards, commissions or authorities, provincial and federal departments or ministries or, directly, from the entities concerned.

4.01 The annual series on federal and provincial government finance estimates are based on the main estimates presented by the governments concerned and on the budget speeches which accompany them. At the local government level, estimates are derived from a survey of municipalities. Information obtained through the survey, which includes all municipal units within major urban areas and a representative sample of other municipalities, is inflated to produce aggregate data for the municipal component of the local general government universe in each province. Data for other components of the local universe, such as schools, hospitals and local boards and commissions are estimated on the basis of information supplied by provincial government departments and other divisions within Statistics Canada. Supplementary information is obtained from provincial and federal governments' budget speeches and estimates. Details of survey methods are presented in the introduction to each publication.

4.02 For the annual series on provincial government finance estimates, it was the practice to substitute for provincial information on certain revenue items corresponding information obtained from federal sources. The revenue items concerned were (a) provincial share of federal corporation income tax on power utilities, (b) provincial share of federal income tax on corporation undistributed income, (c) remittances by the federal government of provincial personal and corporation income tax in accordance with tax collection agreements and (d) general purpose transfers from the federal government. The substitution was made to ensure interprovincial compatibility and, hence, comparability of data. When

the published series (Catalogue 68-205) was replaced for the year 1983-84 and subsequent releases by CANSIM Matrices 2751-2763, these substitutions were discontinued because the data are released prior to the revised federal information becoming available.

4.03 Provincial transfer information is not substituted in the annual publication on local government finance because the year-ends of these two levels of government differ. Provincial information is, however, used to corroborate the information obtained from local government documentation.

4.04 In all instances, various estimating techniques are used to complete essential data. These techniques are explained in the related publications.

4.05 Data presented in the annual publication on consolidated general government revenue, expenditure, financial assets and liabilities are compiled from the series produced within the Division for each level of government. Additional data used to eliminate some intergovernment transfers and purchase-sale transactions are obtained from the source documents pertaining to each level of government. The consolidation process, as well as the significance of the resulting consolidated data, are depicted in Part IX.

4.06 These varied sources of financial data are the products of non-standardized accounting systems, because governments employ the cash or accrual conventions, or a combination of these. Under the cash basis of accounting, revenues and expenditures are reflected in the accounts in the period in which the related cash receipts and disbursements actually occur. The accrual basis, however, requires revenues and expenditures to be reflected in the period in which they are deemed to have been earned and incurred. While most government enterprises and some special funds use the accrual basis of accounting and some provincial governments are moving toward adoption of this convention, the cash basis of accounting is restricted to a few government entities. Most governments now use what is generally referred to as the "modified cash basis" of accounting under which transactions during an accounting period are recorded on a cash basis but certain items are accrued at the end of the period. However, there is little uniformity among governments on the items subject to accrual. Thus, while it would be desirable to have all financial management statistics derived from data produced under, or adjusted to, a uniform accounting basis, this is not possible at present.

Statistics for any one government are produced from sets of accounts based on combinations of the accounting conventions. The amount of work involved in adjusting each of these sets of accounts to the common basis of accounting would not result in significantly better statistics and nor would it address the problem of differences in accounting periods.

Until governments adopt uniform accounting and reporting standards, the Financial Management System will not be able to produce statistics within a single given accounting convention.

Government Enterprise Data

- 4.07 Data on federal, provincial and territorial enterprises required for financial management statistics are obtained from the financial reports of these enterprises. Additional information is obtained from the public accounts of the parent governments, from reports of the departments through which the enterprises report to their legislature and through direct communication with the enterprises.
- 4.08 While data on local government enterprise finance are not published at present, financial reports of many of these enterprises are being received with those of their parent municipalities. In addition, selected and usually highly aggregated financial data are collected by other Divisions of Statistics Canada to supplement their principal requirements on physical output. A financial management series on local government enterprise finance, incorporating these two sources of information with information obtained by the Public Finance Division, is being developed.

Government Employment Data

- 4.09 Statistics on federal government departmental employment and payrolls are prepared from tabulations provided by the federal Department of Supply and Services. Additional information is extracted from the financial statements of the various departments. Employment data on federal special funds and enterprises are provided in most cases directly by the employing agency.
- 4.10 The corresponding statistics on provincial governments are based on data prepared by most provincial governments for their own purposes and transmitted to Statistics Canada in the form of computer tapes and print-outs, administrative records or questionnaires. Data for provincial and territorial special funds and enterprises, not included in the foregoing, are provided through questionnaires.
- 4.11 Employment and payroll data on local government cover at present the general services of municipalities. As data become available the coverage is being gradually expanded to include other local entities, such as municipal enterprises, municipally-owned hospitals, school boards, joint boards and commissions. The information is derived from a monthly survey of all municipalities with populations over 10,000; a quarterly survey of small municipalities within metropolitan areas and

an annual sample survey of all other small municipalities. All the above surveys are described in detail in the publication on Local Government Employment, (Catalogue no. 72-009).

- 4.12 For a detailed description of the concepts of employment and payroll, as they apply to all levels of government, see Part XI.

PART V

GENERAL GOVERNMENT REVENUE AND EXPENDITURE

Introduction

- 5.00 Two major conventions have been established within the Financial Management System to achieve its aim of producing financial statistics of governments which are consistent, compatible and comparable. These are the "unification" and the "gross" conventions.
- 5.01 According to the "unification convention", the Financial Management System ignores the demarcations within the general government universe between the departments, and the boards, agencies, commissions, etc., which comprise the government of Canada, of a province or territory and of a locality, as described in Part III of this publication. Such administrative units are treated not as separate entities but as components of a single government. This convention is also applied to companies and their subsidiaries in the government enterprise universe but, here, it may be limited by the need to maintain compatibility with the Standard Industrial Classification System.
- 5.02 The second or "gross convention", as its name implies, requires that all transactions be reported gross, that is that the netting of expenditures against revenues, and vice versa, be nullified. There are a few exceptions to this gross convention as described in Paragraphs 5.05-5.07.

5.03 For purposes of general government finance statistics, revenue is defined as all monies received (and/or deemed to be received) by government, other than through borrowing or recoveries of previous lending. Expenditure is defined as all monies disbursed (and/or deemed to be disbursed) by government, excluding lending and repayments of loans. More specifically, revenue includes (a) proceeds from taxation (either actually received or deemed to be received on account of certain tax rebates, as described in Paragraph 5.08) and from the sale of goods (including sales of fixed assets) and services, (b) contributions of employers and employees to universal pension plans and to pension plans and social insurance programs operated by the government, other than the contributions of the government which operates the plans or programs, (c) receipts in respect of fees, privileges, rents, licences, permits, fines and penalties, (d) transfers from other levels of government and (e) return on investments. On the other hand, expenditure includes all outlays made or deemed to be made by government to discharge its functions as described in Part VI. These outlays take the form of purchases of goods and services, the acquisition of capital assets and transfer payments.

Gross General Revenue and Expenditure

5.04 To make revenue and expenditure reported by governments conform to the gross convention of the Financial Management System, certain categories of transactions require adjustments. These categories and the necessary adjustments are described below.

5.05 Refund of revenue and recovery of expenditure - These adjustments result from the partial or complete nullification of transactions occurring within the current reference period, e.g. a revenue obtained by overtaxation, an overcharge for a good or service sold, an expenditure resulting in an overpayment for a good or service purchased, or an excessive transfer to a person, a business or another government. When the amount is shown in source documents then (1) the revenue refunded is omitted from expenditure and netted against the appropriate revenue source and (2) the expenditure recovery is omitted from revenue and netted against the relevant expenditure function.

5.06 Statistics must reflect the events of the particular time period to which they refer. Therefore, adjustments to prior events which occur within a reference period should be applied to the statistics for those prior periods. In public finance however, it is often very difficult to do this because it is difficult to identify in source documents transactions which occurred at different times. For example, refunds of overpayments of income, sales and other taxes are generally made in the year following that to which the tax applies, while final adjustment payments made under shared cost programs can be made from two to five years after the year to which they refer. Because government accounting is generally cash based (see Paragraph 4.06) such refunds and adjustments are not accrued in the periods to which they relate, but are taken into account in the periods in which they occur.

5.07 While these refunds and adjustments constitute by far the largest part of the transactions relating to events of prior years, there are other categories of such refunds. Past practice has been to treat them as balance sheet adjustments when these latter refunds and recoveries were included with current year's revenue and expenditure in source documents. Starting with fiscal 1977-78 it was decided that, since these identifiable transactions form a very small component of the total adjustments in any one year which relate to prior years, they are best treated as revenue and expenditure of the current year.

5.08 Tax rebates and/or credits - The application of the gross convention in respect of tax rebates and/or credits depends on the adequacy of the definition of the concept of "tax proceeds". Proceeds of a particular tax should be the amount produced by the multiplication of the base of that tax by the rate of the tax. Rebates and/or credits can be grouped under three broad categories in accordance with their explicit or implicit objectives: (a) rebates and credits in favour of particular groups of taxpayers, (b) credits granted as an incentive to industries or other types of activities and (c) credits and abatements aimed at avoiding or minimizing double taxation of the same tax base. Each of the categories is dealt with below.

(a) The first category consists of the tax rebates and/or credits implemented by provincial governments during the past ten years or so. Most important of these are rebates and credits granted through the personal income tax mechanism, such as tax rebates for certain

aged persons, tax credits relating to sales taxes, property taxes, to the cost of living, etc. This category of fiscal compensation is in effect in a few provinces; in others comparable relief measures are implemented by means of direct transfer payments or subsidies, e.g. homeowners subsidies. Clearly, this category of rebates and/or credits affects the normal proceeds of the tax. Accordingly, in order to obtain the full weight of the revenue and expenditure transactions related to such fiscal measures, and to maximize intergovernment comparability, revenue and expenditure are "grossed up" by the amounts of the rebates and/or credits. The same procedure applies to federal income tax credits, such as the child tax credit.

- (b) The second category consists of tax credits in respect of research and development, investment in Canadian enterprises, small businesses and certain natural resource industries. Proceeds derived from the taxes affected by such credits should be "grossed up" by the amount of the credit and the latter shown as an expenditure under the appropriate function. However, in most cases the information necessary for application of the "grossing up" process is not available. Where information is available, the related revenue is shown gross and the credits and rebates are recorded as an expenditure under the appropriate function or sub-function.

(c) The main credits comprising the third category are foreign tax credits, logging tax credit and federal and provincial dividend tax credits. Since the general purpose of such credits is the elimination or minimization of double taxation, they are not subject to the gross convention.

5.09 Sales revenue - Government derives revenue from the sale of goods and services by certain institutions that it owns, finances and operates, such as hospitals, residences for handicapped or aged persons, schools, farms and prisons. Often this revenue is netted out of the expenditure to which it relates in government financial reports. In accordance with the gross convention, this revenue is included in gross general revenue, thereby restoring expenditures to a gross basis.

5.10 Commissions - Most provincial and territorial governments pay commissions to persons or business establishments acting as agents for the collection of various taxes. These commissions are either a percentage of the taxes collected or a flat amount. Where netting has taken place, amounts equivalent to the commissions are added back to gross general revenue, on the grounds that government's entitlement is the tax base multiplied by the rate of the tax (see Paragraph 5.08), and to gross general expenditure since they are a cost of collecting the taxes.

5.11 Loans treated as expenditure - Loans, when acknowledged by the lending authority to have become uncollectable, are included in gross general expenditure. The amounts forgiven in the year in respect of loans

carrying forgiveness clauses are also included in gross general expenditure. In these cases the original debtor is deemed to have received a transfer in the amount concerned.

- 5.12 Special cases affecting local government - While tax revenue at the federal and provincial levels is reported largely on a cash basis in source documents, property tax revenue of local government is reported on an accrual basis, i.e., the total amount reported and included in gross general revenue is the total assessed regardless of collections. This constitutes an important conceptual difference between the local and the other levels of government but the statistical significance of this difference is inconsequential. In addition, local governments normally treat capital outlays which are financed through the issuance of long-term debt as balance sheet transactions and record the payment of interest on the debt and the repayment of its principal as expenditure. In the Financial Management System, however, local government capital outlays are treated in the same way as those of the federal and provincial governments, i.e., as expenditure at the time of purchase, regardless of how they are financed. Only interest on related debt is classified as expenditure; retirements of principal are treated as balance sheet transactions.

Intergovernment Transactions

- 5.13 All transactions among entities comprising a single government and all transactions among levels of government when combined must be eliminated in order to obtain unduplicated data. How transactions occurring within

a single government are eliminated is described below. The techniques used to eliminate intergovernment transactions are dealt with in Part IX of this manual.

Transactions within an individual government

5.14 In accordance with the unification convention, the financial activities of entities within a government, which are reported by that government through individual statements, must be adjusted to eliminate double or multiple counting of transactions. Such adjustments are made at various stages of the compilation process by consolidating the accounts of departments and special funds.

5.15 By eliminating all transactions occurring between departments or ministries and all the special funds of a single government, it is possible to produce an "unduplicated" measure of that government's financial activities. To illustrate this process, consider the example of a provincial medical care plan operated by a government commission and financed in part by premiums. The provincial government will report its contributions to premiums in its role as employer as a normal expenditure. These contributions, along with those of other employers and of employees constitute the premium revenue of the commission. But, for financial management statistics purposes, the commission is not treated as a separate entity. Its operations are, therefore, included with its parent government's overall operations. The government's own contributions are offset against the corresponding revenue of the

commission and the balance is treated as government revenue, while the commission's expenditure is treated as government expenditure.

It should be noted that where a government makes a contribution as an employer to a program administered by one of its special funds, (provincial governments contributions to their own Workers' Compensation Boards, Quebec contributions to the Quebec Pension Plan, etc.) only that government's contribution (expenditure) is offset against the fund's revenue. Contributions by other governments are treated as revenue of the receiving government, e.g., provincial governments contributions, as employers, to the Canada Pension Plan, federal government contributions, as employer, to a provincial Workers' Compensation Board. However, as information is not always available on all intragovernmental transactions, elimination of duplication is not fully attained.

- 5.16 Difficulties of elimination also arise when the financial year-end of subordinate entities is not the same as that of their parent government. Here the general practice is to integrate the data of such entities into the general government statistics for the fiscal year ended closest to the year-end of their parent government.

Accounting methods may also vary between a government and its agencies. As a result, amounts recorded in the parent government's accounts as flows to, or from, its agency differ from the records of that agency. In such cases, the practice is to substitute government records for

those of the agency. All adjustments made to the revenue and expenditure statements of the government and its agencies result in corresponding adjustments to the asset and liability statements. The latter adjustments are outlined in Parts VII and IX.

5.17 The practice of interdepartmental billing is a fairly common one. Billings not specifically identified in the data source documents, cannot be eliminated and some overstatement of government revenue and expenditure is inevitable. However, the statistical significance of this overstatement is minor.

5.18 At the local government level where fund accounting is used extensively, interfunding involves, first, bringing together the transactions of the various funds on an unduplicated basis. Secondly, in order to show the operations of local government within a province on an aggregate basis, the duplicative effects of inter-local government transfers and of inter-local government purchase-sale transactions, where identifiable, are eliminated. Special rules have to be applied in such cases, since data on only one side of the transactions are known in most instances. These rules are spelled out in Part IX.

Intergovernment transfers

5.19 A transfer is a conveyance of monies for which the transferor receives no direct benefit.

- 5.20 As pointed out in Paragraph 2.09 there has been a growing trend toward increased financial co-operation among levels of government. This has been accompanied by a parallel growth in both the dollar value and number of intergovernment transfer payments, as well as by a wide variety of terms relating thereto. For instance, some current federal-provincial transfer arrangements carry terms which, although indicative of intent, do not specify the particular activity to which the transferee must apply the amount concerned. In other cases, terms are inconclusive or subject to differing interpretations. Sometimes the terms seem to be the conditions upon which the transfer is made but it may be that these terms are only the rules to be followed in establishing the amount of the transfer; they do not bind the transferee in any way.
- 5.21 Moreover, there is a growing tendency toward transfers which affect more than one function or sub-function (e.g., the Canada Assistance Plan program) and it is virtually impossible to make a meaningful functional allocation of such multi-purpose transfers.
- 5.22 These factors resulted in dropping the concepts of "conditional" and "unconditional" transfers from the publication of data for 1970-71 actual and 1972-73 estimates onwards. This departure from the past practice, however, did not imply the cessation of allocating transfers to particular functions to the fullest possible extent. The latter practice continues but allocation is now made on the basis of real or apparent intent of the transferor. These transfers are referred to

as "specific purpose transfers". Transfers which are not allocable to particular functions are set out under the heading "general purpose transfers" specifying the major program pursuant to which they are made.

5.23 Theoretically, transfers shown in the transferor's records as amounts paid should be the same as those shown in the transferee's records as amounts received. It will be recalled from Part IV, however, that the statistics on each level of government are based on related source documents and precise agreement between amounts reported as paid and as received is rare. Every effort is made to reconcile differences, but the absence of uniform accounting practices and identical year-ends preclude complete reconciliations. The general rules used to consolidate the accounts of the governments concerned are set out in Part IX.

Intergovernment purchases and sales

5.24 There are various purchase-sale transactions which occur among levels of government. The most frequent type comprises the purchase of goods or services by one government from another for resale or distribution to the population or territory under its jurisdiction. In this instance, the purchasing government effectively engages the selling government to provide goods or services that it feels it should, but does not or cannot itself provide.

5.25 To obtain unduplicated data within the government universe, all inter-governmental purchase-sale transactions should be eliminated. However, this cannot always be accomplished in practice because of lack of information. Elimination, to the extent possible, is carried out as explained in Paragraph 9.05.

Intergovernment fiscal arrangements

5.26 Income taxes - Under current Tax Collection Agreements, the federal government collects the personal income tax (Quebec excepted) and the corporation income tax (Quebec, Ontario and Alberta excepted) levied by the provinces and makes monthly remittances to the provinces concerned. For purposes of the Financial Management System, federal personal and corporation income tax revenue is the total of all collections by the federal government less refunds and amounts credited to the provinces. Personal income tax revenue of the provinces, other than Quebec, and corporation income tax revenue, other than Quebec, Ontario and Alberta, consist of the total amounts received from the federal government. However, since remittances relating to the current taxation year are made on an estimated basis, adjustment payments (plus or minus) are required. The system takes these adjustments into account in the year in which they are made, (see Paragraph 5.06). Quebec levies and collects its own personal income tax and, together with Ontario and Alberta, its own corporation income tax. The revenue of these three provinces from those sources is accordingly the amounts they collect less refunds.

- 5.27 Estate tax - Effective January 1, 1972, the federal government withdrew from the field of inheritance taxation, which had been shared with the provinces. Thus, upon the settlement of outstanding assessments, any revenue of the provinces relating to taxation upon death will arise from direct provincial tax levies.
- 5.28 Federal income tax on public utilities - Since 1947 the federal government has transferred to each province amounts equivalent to a certain percentage of the federal income tax collected from non-government utilities operating in the province. Payments are made under the Public Utilities Income Tax Transfer Act. In the financial management series, the full amount collected is shown as federal revenue from corporation income tax and the subsequent flow to the provinces is shown as a transfer on the expenditure side of the federal government and under revenue from general purpose transfers in the provincial governments' statistics.
- 5.29 Federal tax on corporation undistributed income - Under a provision of the Federal-Provincial Fiscal Arrangements Act, 1972, which was re-enacted in 1977 and 1982, the federal government transfers part of the revenue it receives from its tax on corporations' 1971 undistributed income on hand to those provinces in which that income is deemed to have been earned. At the federal level, the full amount collected by the federal government is included as corporation tax revenue and the amount transferred is shown as a transfer paid. At the provincial level, the amount so transferred is recorded as a general purpose transfer received.

- 5.30 Provincial tax revenue guarantee payments - Under the terms of the Federal-Provincial Fiscal Arrangements Act, 1972, the federal government provided a guarantee that the provinces would not suffer a loss of personal and corporation income tax revenue if they adopted income tax acts modelled on the 1971 revised federal Income Tax Act. Losses would be determined on the basis of specified rates deemed to be equivalent to those levied under their previous acts. The program was modified by the 1977 Act to apply only to personal income tax. In the financial management series, the federal payments to the provinces are classified as an expenditure and the provincial receipts therefrom, as an equivalent revenue, both under general purpose transfers.
- 5.31 Reciprocal taxation agreements - Pursuant to the Federal-Provincial Fiscal Arrangements and Established Programs Financing Act, 1977, the federal government has bound itself to make payments, as if it were taxable, for certain provincial consumption taxes (e.g., sales, tobacco, motive fuel and amusement taxes, as well as motor vehicle registration fees) while the participating provinces pay any tax or fee levied under the Excise Tax Act and waive the right to a refund of such taxes and fees as formerly provided under sub-section 44(2) of that Act. Currently, the participating provinces are: Newfoundland, Prince Edward Island, Nova Scotia, New Brunswick, Quebec, and Ontario, Manitoba and British Columbia. When such amounts can be identified, they are eliminated in consolidating the accounts of the relevant governments.

- 5.32 Collections for other governments - In some provinces arrangements exist between the provincial government and its municipalities for the collection of property taxes levied by the latter governments. In the financial management statistics, the government making the initial collection is regarded as an agent of the other and the amount paid to the second government is included in its revenue. In other words, the treatment here parallels the federal-provincial tax collection agreements.
- 5.33 Grants in lieu of property taxes - Pursuant to the Constitution Acts, a government cannot levy taxes on another government. In cases where real property would be subject to a tax levied by a government were it not owned by another government, it is a fairly general practice for the government owning the property to make a grant in lieu of real property taxes. The same practice prevails in the case of exempt government agencies, whether corporate or not.
- 5.34 Some would favour the classification of grants in lieu of property taxes as a tax revenue of the receiving government. However, since these grants are voluntary and since there is no doubt that they are not the yield of imposts of the receiving government, they are regarded, for purposes of the financial management series, as a particular type of general purpose transfer and the amounts are specifically identified as grants in lieu of property taxes.

Transactions between General Government and Government Enterprises

- 5.35 Some government enterprises do not cover their costs, let alone realize a profit. Thus, one of the common transactions between a government and its enterprises is the payment by the former of an amount required to write off the deficit of the latter. This is classified as a straight-forward government expenditure under the function "transfers to own enterprises".
- 5.36 Where a profit is realized by a government enterprise, the amount included in general government revenue is the actual remittance to that government by the enterprise. In the case of liquor boards which perform regulatory functions in addition to commercial activities, proceeds from the discharge of the former are treated as an integral part of general government revenue.
- 5.37 Where in a given year an enterprise receives from its parent government payments on account of deficits and makes a remittance of profit in that year, only the related net amount is brought into general government revenue or expenditure, as the case may be.
- 5.38 It is a general practice for governments to make loans to their enterprises and to receive interest payments in respect thereof. Such interest revenue is recorded in the financial management series covering general government under the caption "return on investment".

5.39 Similarly, when a government provides financial assistance to a class of industry in which one of its own enterprises operates and the enterprise qualifies for such assistance, the amount involved is regarded as normal government expenditure.

Transactions with Trusts Excluded from the Financial Management System

5.40 All government transactions with trusts not included in the government universe are treated as those with entities outside that universe (see Paragraph 3.15). For example, government's contributions, as an employer, to government-employee trustee pension plans in place in certain provinces are classified as expenditure of the government.

PART VI

CLASSIFICATION OF GENERAL GOVERNMENT REVENUE AND EXPENDITURE

Revenue

6.00 The Financial Management System distinguishes between revenue derived from a government's own sources and revenue transferred from another government. Own source revenue comprises the proceeds of taxes and related levies, of privileges, licences and permits, of sales of goods and services, of investments and of a number of miscellaneous imposts. Included in revenue from investments are all transmittals from own enterprises except where an enterprise acts as a collection agent for a specific general government revenue, e.g., liquor authorities for alcoholic beverage consumption taxes and for privileges, licences and permits related to liquor control and regulations. Such transmittals are allocated to the appropriate revenue classifications. Transfers from other governments fall into two categories - general purpose, where no restriction is placed on their use, and specific purpose, where certain conditions must be fulfilled in order to qualify for the transfer or which govern the use of the transfer.

6.01 Further, principal groupings are established in the category of taxes and related levies. Generally taxes are grouped in terms of the base being taxed: income or real property, the kind of action which creates the liability: consumption, or the purpose of the tax: levies for health

and social insurance. There are also certain imposts which do not fit easily into any of these principal groupings and are assigned to a miscellaneous category.

6.02 While own source revenue is generally classified in terms of whether or not it is derived from taxation, there is one significant exception. Some governments derive substantial revenue from particular types of transactions relating to exploration, development or exploitation of natural resources. Because of the magnitude of this revenue it is highly desirable that it be identified by the resource concerned. This could be achieved either (a) by including under each type of revenue a detailed "natural resource" breakdown, or (b) by setting up a major "natural resource revenue" category under which the various types of revenue would be included. The first alternative would result in an unduly cumbersome classification framework, but the second alternative provides a relatively simple framework and it has been deemed to be the more appropriate approach. (See Paragraph 6.08 for details on the relationship between the "natural resource revenue" category and other revenue categories.)

The classification framework used in the Financial Management System is set out in Appendix A. Paragraphs 6.03 - 6.18 provide an outline of the main items included in the various revenue classification categories.

Own Source Revenue

6.03 Income taxes

- (a) Personal income taxes - Encompasses general levies on income of individuals and unincorporated businesses as well as special levies on income, such as a surtax, which governments put into effect from time to time. The proceeds from the income tax on capital gains of individuals and unincorporated businesses are included in this classification (see also Paragraphs 5.03 and 5.08).
- (b) Corporation income taxes - Includes general federal and provincial taxes on taxable profits of corporations. It also includes special taxes which are occasionally levied on profits of corporations. Specific taxes which are sometimes levied on profits of natural resource-based industry are excluded from this heading in favour of the classification "natural resource revenue" (see Paragraph 6.08).
- (c) Tax on payments to non-residents - Accommodates the federal tax withheld at source on payments to non-residents (both individuals and corporations) of dividends, interest, rents, royalties, alimony, managerial fees and amounts arising from trusts and estates.

6.04 Property and related taxes

- (a) Real property - In Canada, taxation of real property (land and improvements) has been traditionally a local government preserve. However, where services formerly carried out by local government, e.g. education, health, welfare, justice and assessment, have been

assumed by certain provincial governments, this field of taxation is now shared . Some provinces also levy real property taxes in territory that is not organized into local governments. In the statistical data on provincial governments, the amount shown as revenue from real property taxation is exclusive of amounts collected for and passed on to local governments and these governments include the amount collected for and remitted to them with the amount they collect themselves.

- (b) Special assessments - Are levies made by a municipality on a specific group of properties to pay for a service (e.g. the provision of a sidewalk) supplied to those properties only.
- (c) Business - Includes taxes levied on businesses in lieu of, or supplementary to, property taxes, except taxes on income or profits of such businesses which are classified under income taxes.
- (d) Capital taxes - includes the taxes levied by provinces on the paid-up capital of corporations operating within their boundaries. These amounts were previously classified to "Miscellaneous taxes - other".
- (e) Other - any other property related taxes.

6.05 Consumption taxes

- (a) General sales - The proceeds of the federal manufacturers sales tax and of provincial retail sales taxes are recorded in this classification. In certain provinces general sales taxes are termed "health" or "education" taxes, but since the proceeds are not

specifically used for those purposes, their yield is classified here.

- (b) Motive fuel - Includes the proceeds of specific taxes on gasoline, on aviation and diesel fuel and on propane or other substances when used as motive fuel.
- (c) Alcoholic beverages - Includes all forms of special levies, excise tax, excise duty or other, imposed on the production and sale of alcoholic beverages. Where a general sales tax is applicable to alcoholic beverages, the related proceeds are classified under the "general sales taxes" caption. Similarly, customs duties on imported alcoholic beverages are classified under the "customs duty" heading. (For comments on provincial government revenue from liquor authority operations, see Paragraphs 6.09 and 6.11.)
- (d) Tobacco - Accounts for special levies (e.g. excise tax, excise duty and provincial specific taxes) on the production and sale of tobacco products. General sales taxes and customs duties applicable to tobacco products are included under their respective headings.
- (e) Amusements and entertainments - Includes tax receipts from admissions to theatres, cinemas, recreational, cultural or other entertainment activities.
- (f) Race track betting - Encompasses taxes levied by provincial governments on amounts wagered on horse races.
- (g) Air transportation - Accounts for the tax levied by the federal government on the price of air transportation purchased either in Canada or outside the country for the use of air transportation facilities in Canada.

- (h) Customs duties - Applies only to the federal level and takes into account the proceeds from levies on commodities imported into Canada.
- (i) Natural gas and gas liquids excise tax - Accounts for the proceeds of the federal excise tax on all natural gas and gas liquids produced in Canada. These amounts were previously classified to "Miscellaneous taxes - other".
- (j) Canadian ownership charge - Accounts for the special charge imposed by the federal government on all oil and gas consumed in Canada. The proceeds, which were previously classified to "Miscellaneous taxes - other", are to be used to increase public ownership of firms in the energy sector.
- (k) Other - Accounts at the federal level for the yield of special excise levies on jewellery and watches, toilet preparations and an assortment of sundry items. At the provincial level, it includes the proceeds from special taxes on telecommunications, traveller accommodations, meals, electricity, gas, coal, and fuel oil and on other goods and services.

6.06 Health and social insurance levies

- (a) Health insurance premiums and taxes - Includes premiums or taxes, such as the Quebec payroll tax, levied by some provinces, the proceeds of which are used specifically in financing their

hospitalization and medical care programs. Since these levies generally apply to both hospitalization and medical care, it is not possible to identify the proceeds applicable to individual programs. Payroll taxes levied for multiple purposes are included in "Miscellaneous taxes".

- (b) Unemployment insurance contributions - Covers employer (other than federal government) and employee contributions toward income maintenance payments under the federal unemployment insurance program.
- (c) Workers' compensation contributions - Comprises non-government employer contributions to provincially-operated workers' compensation schemes. Most governments act as their own insurers against risks of employee injury in the course of duty and do not contribute to their workers' compensation programs.
- (d) Universal pension plan levies - This classification covers contributions to the Canada Pension Plan by employers and employees outside the province of Quebec and corresponding contributions to the Quebec Pension Plan by employers and employees in Quebec. Since the Financial Management System regards both these plans as integral parts of the general government operations of the governments concerned, contributions by the governments of Canada and Quebec, as employers, to their respective plans are not treated as revenue.

6.07 Miscellaneous taxes

- (a) Taxes on insurance premiums - Encompasses the proceeds of taxes levied on all insurance premiums, including taxes on fire insurance premiums and the general tax imposed by all provinces on the gross premium income of insurance companies as well as that which is payable by the policyholder. At the federal level, it includes taxes on certain premiums for insurance contracted outside Canada.
- (b) Oil export charges - Since 1975 the federal government has levied a charge on the export of crude oil and certain other petroleum products. Proceeds from such charges are reported here.
- (c) Petroleum levy - Since 1978 the federal government has levied a charge upon domestic and imported petroleum and designated petroleum products to be processed or consumed in Canada. This levy is to provide incentives for the development of domestic petroleum derived from tar sands through the payment of compensation equivalent to that paid for imported oil to refiners who purchase such petroleum. Proceeds from this levy are reported under this heading.
- (d) Payroll taxes - Includes all provincial payroll taxes except that levied by Quebec which is directed to financing health insurance (see Paragraph 6.06 (a)). Payroll tax revenues in the other provinces are used to help finance a number of functions.
- (e) Other - This classification brings together the yield of taxes not elsewhere specified. At the federal level, it includes the proceeds from the Western Grain Stabilization Account and other

miscellaneous levies. At the provincial level, it includes taxes on transfers of land titles, the public utilities assessment levy and crop insurance premiums collected by certain provinces. It also includes succession duties levied by the province of Quebec. At the local level, the classification covers such sundry imposts as the tenant tax in Quebec.

Natural resource revenue

6.08 Revenues derived from the exploration, development and exploitation of natural resources, other than those received under income tax legislation, are referred to as natural resource revenues. Five sub-classifications identify specific resources and a residual sub-category is provided for miscellaneous resource revenue not elsewhere specified. The main groups are as follows:

- (a) Fish and game - Includes revenue from hunting and fishing licences and permits, royalties on furs and fishing royalties.
- (b) Forests - Includes revenue from taxes on logging operations, leases and rentals of Crown timber lands, timber berth dues, stumpage dues and timber royalties, timber and fuelwood licences and permits, timber sales, scaling fees, leasing and contract fees, selective cutting fees, log-driving charges, management and forest protection charges and other revenues derived from forestry.
- (c) Mines - Provides for revenues from mining operations in respect of the production of metallic and non-metallic minerals, fuels (with

the exception of oil and gas which form a separate category) and structural materials, i.e. quarries (sand and gravel and stone). It does not include manufactured products related to mining, such as clay, cement and lime. Mining revenues consist of receipts from taxes on mining operations, taxes levied pursuant to mineral taxation acts; taxes on acreages, concessions, claim leases, exploitation licences and permits; leases, rentals, and other permits and royalties on mineral production; miners certificates and licences.

(d) Oil and gas - The importance in natural resource revenue that oil and gas revenue has acquired during recent years makes it desirable to separate some of this revenue by major categories. Five sub-captions have been devised:

- (i) Royalties - Accounts solely for royalties levied on the production of oil, natural gas and natural gas by-products from lands for which sub-surface rights are owned by the Crown.
- (ii) Sale of rights - Relates to the sale of petroleum and natural gas rights and to revenues derived from bonus bids.
- (iii) Petroleum compensation charge - Accounts for the proceeds of a levy by the federal government on all oil refined in Canada. These amounts, which were previously classified to "Miscellaneous taxes - other", are used to compensate refiners for the higher costs of unconventional and imported oil.
- (iv) Petroleum and gas revenue tax - Identifies the proceeds of the tax on net operating revenues derived from the production

of oil and gas which were formerly classified to "Miscellaneous taxes - other".

- (v) Other revenues - Is a residual category including freehold reserves taxes, oil sand, petroleum and natural gas rentals and fees, and other proceeds which cannot be classified under (i) to (iv) above because they overlap individual captions.
- (e) Water power - Includes revenue from water power privileges, water storage reservoirs, water rental contributions, fees and royalties on hydro-electricity generated.
- (f) Other - Comprises revenue from rentals and royalties not included elsewhere such as park and camp ground permits, fees, rentals, concessions and sales and miscellaneous natural resource taxes, fees and charges.

Privileges, licences and permits

6.09 These are set charges imposed by government as prerequisites to the performance of certain activities or the exercise of certain functions.

The classification has four components:

- (a) Liquor control and regulation - Covers proceeds from the issue of licences and permits to individuals and business establishments relating to the purchase, production, sale and consumption of alcoholic beverages.
- (b) Motor vehicles - Includes revenue derived from registration fees, drivers' licences, permits and other fees relating to the ownership and operation of motor vehicles.

- (c) Concessions and franchises - Includes revenue obtained from the grant of the exclusive right to discharge functions or responsibilities which would otherwise remain with the grantor.
- (d) Other - Covers proceeds from other privileges, licences and permits, such as those arising from the issue of building permits, letters patent, copyrights, marriage licences, professional and occupational licences or permits, aircraft and boat licences, trade and timber mark registrations, legal stamps, dog licences, etc. Note, however, that privileges, licences and permits pertaining to the exploitation of natural resources are brought under the "natural resource revenue" caption.

Sales of goods and services

6.10 As a provider of public goods and services, government engages in transactions of a commercial nature with organizations or individuals in the private sector and with other governments. Proceeds from these transactions are brought under this classification except those concerning natural resources which are brought under the "natural resource revenue" group. The classification is broken down into two components, namely "intergovernment" and "general".

- (a) Intergovernment sales - The description and the statistical treatment given to "intergovernment" sales of goods and services are dealt with in Paragraphs 5.14, 5.15 and 9.05.
- (b) General - Includes proceeds from all sales of goods and services, which are made to the general public. Such goods include sales of

water (mainly at the local level), postal receipts (at the federal level) and rentals (at all levels). Also included are sales of real property, machinery and equipment, materials and supplies, livestock and animal products, furniture, clothing, publications, documents, forms and other printed material. Proceeds from the sale of confiscated property are recorded under "general" sales of goods. "Services" covers court fees, airport landing and other fees, tolls for the use of transportation services and facilities, fees for the use of dockage or wharfage facilities, administrative and technical fees (search, certification and registration, assaying, testing and other laboratory fees), fees for other services rendered by government officials and tuition, correspondence course and examination fees.

Return on investment

6.11 A distinction is made between return on government investments in its own enterprises and on other investments.

- (a) Own enterprises - Returns from own enterprises comprise three categories: remitted profits, interest and dividends.

Remittances of profits of provincial liquor boards and lotteries are isolated under the remitted profit category. As noted in Paragraph 6.00, specific revenues collected by enterprises on behalf of their parent governments are excluded from this category and allocated to the appropriate classifications.

- (b) Other return on investment - Consists of four sub-categories: interest, dividends, profits on foreign exchange transactions, and a residual "other". The "other" category provides for the classification of net discounts (or the amount amortized) from the purchase of securities at less than their par value, net premiums (or the amount thereof amortized) arising from the sale of a security at a price in excess of its par value and other miscellaneous receipts from investment operations.

Other revenue from own sources

- 6.12 Contributions to government operated pension plans - Includes contributions made by public servants, certain teachers and employers (other than government) toward a public service pension plan operated by government as an integral part of its overall operations (see Paragraph 3.03(f)).
- 6.13 Bullion and coinage - The gains of the federal government on bullion and coinage (seigniorage) are reported here.
- 6.14 Interest and penalties on taxes - Is self-explanatory.
- 6.15 Other fines and penalties - Comprises fines and penalties arising from infractions of laws, by-laws and ordinances, whether civil or criminal.

6.16 Miscellaneous - Provides for receipts not elsewhere classified, e.g., indemnities and recoveries under insurance policies, gifts, contributions from private sources, escheats and forfeitures of election deposits.

Transfers

General purpose transfers from other levels of government and their enterprises

6.17 The principal breakdown of general purpose transfers is by level of government or government enterprise from which the transfers originate. In the sub-classifications, the type of transfer is identified. For example, transfers from the federal government are specified as follows:

- (a) Statutory subsidies - Classifies provincial and territorial revenue received in accordance with the Constitution Acts and certain other legislation. The subsidies concerned comprise grants for the support of legislative assemblies and for interest on certain debt.
- (b) Share of federal corporation income tax on privately-owned power utilities - See Paragraph 5.28.
- (c) Share of federal tax on corporation undistributed income - See Paragraph 5.29.
- (d) Provincial tax revenue guarantee payments - See Paragraph 5.30.
- (e) Equalization - Identifies transfers made by the federal government to reduce inter-provincial disparities in per capita fiscal capacity and to bring less endowed provinces up to a specified standard.

- (f) Reciprocal taxation agreements - See Paragraph 5.31.
- (g) Grants in lieu of property taxes - Accommodates provincial and local government revenue from federal grants in lieu of property taxes, which are isolated for each level of government concerned.
- (h) Other - Revenue from other general purpose transfers by the federal government is grouped here. The main items in this category are the remaining settlements (plus or minus) of the former federal estate tax, payments to the Yukon in respect of grants in lieu of income tax, and capital and operating deficit grants to the Yukon and Northwest Territories. Fiscal stabilization payments are also included.

Specific purpose transfers from other levels of government and their enterprises

6.18 The principal breakdown of specific purpose transfers is by level of government or government enterprise from which the transfers originate. A further breakdown is provided by purpose of transfer (see Paragraph 5.22).

Expenditure

6.19 In the Financial Management System general government expenditure is classified in terms of the service thereby provided. Similar services are grouped together into principal classifications termed functions. In the course of the System's history the number, names and, at times,

nature of the services identified have undergone changes as government operations have altered and the System has become more sophisticated. The present revision incorporates such changes, but these will not affect materially the continuity of statistical series based on the System. Thus the services previously separated in the two functions "Natural Resources" and "Agriculture, Trade and Industry, and Tourism" are now grouped into a single function "Resource Conservation and Industrial Development". In addition, the function previously termed "Supervision and Development of Regions" has been renamed "Regional Planning and Development" and four services not formerly identified within it are now shown as separate classifications. The reasons for these changes are indicated in the appropriate sections of the text following. Expenditure includes total remuneration of employees, all other outlays for goods and services including capital expenditure and transfer payments to individuals, businesses and other governments. Each function and sub-function is described below (Paragraphs 6.20 - 6.37).

6.20 General services

This classification comprises five sub-functions. They are:

- (a) Executive and legislature - Covers identifiable expenditure pertaining to the constitutional, political and law enactment aspects of government activity. At the federal and provincial levels it includes outlays relating to the governor-general and lieutenant-governors, prime ministers and premiers, cabinet ministers and members of legislative assemblies and their staffs;

to the construction, repair, maintenance and upkeep of official residences and legislative buildings; to elections, referendums and revisions of statutes. At the local level it includes all corresponding expenditure items in respect of elected and appointed officials and their staffs.

- (b) Administration - Encompasses all expenditure on administration that cannot be allocated to more specific functions. It includes outlays for central accounting, auditing, budgeting and staffing, for printing and purchasing departments or agencies, for tax administration and collection; for the administrative costs of servicing the public debt, and for the construction, repair and maintenance of multi-purpose public buildings.
- (c) Contributions to pension plans not operated by government and payments under government operated pension plans - These two sub-functions are self-explanatory. However, as in the case of revenue, contributions of governments, as employers, to their own-operated pension plans are not considered as an expenditure item, since those plans form an integral part of governments' overall operations (see Paragraph 3.03), and only the actual pension payments are considered as an expenditure.
- (d) Other - Is a residual category for expenditure of a general nature which cannot be allocated to the other sub-functions. Included are those in respect of central statistical organizations, intergovernment services, conventions, delegations and public receptions, general accident and damage claims, fire and public

liability insurance, court litigations, and general purpose grants to organizations and individuals which cannot be more specifically allocated.

6.21 Protection of persons and property

This classification includes all outlays for services provided to ensure the security of persons and property. Protection extends beyond safeguard from external aggression and criminal action; it includes measures to protect the individual from negligence and abuse, and activities to ensure the orderly transaction of the affairs of the community. The classification is broken down into the following seven sub-functions:

- (a) National defence - Is used to report outlays for the armed forces and military bases and installations; it also covers expenditure related to defence research, military hospitals and colleges and schools located on military bases.
- (b) Courts of law - Takes into account outlays pertaining to the judicial system including the Supreme Court, Federal Court, Tax Review Board, provincial courts of appeal, provincial superior courts (variously known as Court of Queen's Bench, Supreme Court, or Superior Court), county and district courts, magistrate courts, juvenile courts, family courts, justices of the peace, as well as any expenditure concerning prosecuting, such as outlays for attorneys, coroners, witnesses, jurors, court interpreters and premises used in the judicial process.

- (c) Correction and rehabilitation - Encompasses outlays in respect of the incarceration and rehabilitation of individuals convicted of criminal action and sentenced to terms in penitentiaries, gaols and other detention establishments including industrial farms, reform schools and institutions. This sub-function also covers expenditure for probation services.
- (d) Policing - Relates to outlays pertaining to the maintenance of law and order. It comprises expenditure for the establishment, operation, maintenance and equipment of police forces; specialized training establishments; transportation, communication and laboratory equipment, as well as weapons and related equipment. It also accounts for expenditure for the purchase of police services from other governments or private agencies and that for the custody and detention of arrested persons pending their release on bail or appearance before a court of law. Expenditure on forensic science, which was formerly classified under "regulatory services", is now included in this sub-function.
- (e) Firefighting - Provides for outlays pertaining to the prevention, investigation and extinction of fire, to fire investigation officers, to fire fighting forces, to specialized training establishments, to fire trucks and fire fighting equipment. It also takes into account expenditure on the purchase of firefighting services from other governments or non-government sources.
- (f) Regulatory measures - Includes outlays for a wide array of services provided specifically to protect the individual, or a group of individuals, and property against negligence, exploitation or

abuse. However, where the purpose of the program is to protect or to foster a particular industry or activity, the cost is classified under the same function as the industry or activity to which it relates. Accordingly, certain services which were classified previously under the function "regulatory services" are abstracted from that function and appear under the related function. For example, the federal government outlays pertaining to the Canadian Radio-television and Telecommunications Commission are now classified under the sub-function "telecommunications". Thus, under the new sub-function "regulatory measures" are recorded outlays pertaining to trusteeship services; ombudsmen and adjudicator or referee services; protection of borrowers, consumers and investors; commercial standards and business practices; superintendents of insurance; rent control; human rights; regulation of professions; film censorship; motor vehicle driver licences and highway safety (payments to accident victims from Unsatisfied Judgement Funds, previously included in this classification, are now allocated to "motor vehicle accident compensation" in the "social services" function); industrial accident prevention; liquor licensing boards; the registry of land titles; the inspection of buildings, electrical systems, plumbing and gas installations and other systems likely to give rise to safety problems and, more particularly at the federal level, expenditure pertaining to the combines investigation and competition policy and to the control of atomic energy.

- (g) Other - This is a residual category which includes outlays for special actions taken to cope with emergency situations and expenditure for permanent organizations established to deal with such contingencies. It also includes expenditure on animal or pest control services and on activities of a protection nature not covered by the other sub-functions.

6.22 Transportation and communications

This classification is divided into eight sub-functions which cover outlays for all phases of the acquisition, construction, operation and maintenance of the relevant transportation and communications facilities and equipment as well as expenditure pertaining to related engineering and technical surveys. In addition to these general outlays, each sub-function accounts for particular expenditures as follows:

- (a) Air - At the federal level, this sub-function reflects expenditure for navigational, air traffic and other related services, operating subsidy payments to regional air carriers and municipal airports, grants to flying clubs and payments for international air navigational services. At the provincial level, it includes the non-commercial operations of their air services.
- (b) Road - Takes into account expenditure on highways, secondary roads, roads to resource areas, boulevards, avenues and streets together with related storm sewers (where separated from sanitary sewers). Bridges, over and underpasses and road tunnels incorporated in highways, etc. are also included as are those ferries, usually operated by highway departments, which form integral parts of road systems. Such ferries are distinguished from major lake and

seagoing vessels and their supporting operations which, if not classified as enterprises, are assigned to the sub-function "water". The classification also includes the costs of removing snow, debris, leaves and other deposits as well as surface sanding and flushing, expenses pertaining to traffic control and parking facilities.

- (c) Public transit - Provides for expenditure on planning and research related to public transit systems. It also includes capital expenditure undertaken by general government (mainly at the local level) on public transit. Excluded are the operating costs of public transit systems which are enterprise activities.
- (d) Rail - Accounts for expenditure on the development, implementation and monitoring of policies and programs related to railway network rationalization and effectiveness. It also includes payments for railway relocation, contributions to railway passenger services infrastructure and freight assistance subsidy payments related to freight movements in certain geographical regions as well as grants for operations of railway facilities to resource areas.
- (e) Water - Encompasses expenditure on the development, maintenance, operation and control of navigational channels, canals, harbour and wharf facilities, ferries (except as noted in "road" - (b) above), landings and other marine facilities. It also includes the costs of the operations of the Coast Guard and certain northern transportation services.

- (f) Telecommunications - Includes disbursements for research, planning, co-ordinating and controlling the development of telecommunication requirements, both domestic and international. Also included are expenditures on the operation of the Canadian Radio-television and Telecommunications Commission, formerly classified under "protection of persons and property - regulatory services", and on other communication systems.
- (g) Postal services - Reflects the gross expenditure for the provision of postal services, i.e. all the operating costs related to the collection, processing and delivery of mail as well as costs of ancillary services provided through post offices.
- (h) Other - This residual group includes outlays which, although allocated to "transportation and communications", cannot be further identified as to sub-function or which overlap several sub-functions.

6.23 Health

This function covers government's traditional concern in dealing with threats to the community's well-being as exemplified in the control and prevention of infectious disease through public health schemes. It also includes the more recent involvement in promoting that well-being through hospital and medical care schemes which not only provide universal health insurance but also supervise the delivery of hospital and medical care. Four sub-functions identify the major components of this classification.

- (a) Hospital care - Covers outlays in respect of all kinds of hospital services, i.e., those provided by general hospitals, as well as by acute disease, chronic disease, convalescent, isolation and mental hospitals. It also includes expenditure pertaining to nursing schools attached to hospitals. Where nursing schools come under the responsibility of the Department of Education the related expenditure is allocated to the sub-function "education - postsecondary". Transfers to private hospitals and expenditure of government-owned hospitals are included except for national defence and veterans hospitals whose costs are allocated to the "national defence" and "veterans benefits" sub-functions respectively.
- (b) Medical care - Comprises outlays in respect of general medical care programs. It also includes outlays incurred for dental and visiting-nurse services, the provision of drugs and on out-patient care services.
- (c) Preventive care - Accommodates a wide variety of outlays which are intended to prevent the occurrence of diseases and to mitigate their effect. It covers public health clinics; communicable disease control services (including immunization, treatment, isolation and quarantine outside hospital premises); food and drug inspection services; government establishments (not located in hospitals) providing nursing, hygiene and nutrition advisory services, and government organizations conducting research on the causes and consequences of particular diseases or addictions.
- (d) Other - The residual category "other" covers outlays on clinics for the treatment of retarded or emotionally disturbed persons and on

laboratory and diagnostic services, grants to health-oriented organizations, and expenditure on other health-related services such as health department administration, health statistics, training for health establishment personnel, medical rehabilitation and indemnities to injured persons and their dependants which cannot be allocated to the other sub-functions. Also included are outlays on protection of health and health inspection.

6.24 Social services

This function covers actions taken by government, either alone or in co-operation with the citizenry, to offset or to forestall situations where the well-being of individuals or families is threatened by circumstances beyond their control. It goes beyond the concept of "welfare" which covers assistance (transfers) and services to individuals who are so disadvantaged that the universal social security services are inadequate to provide for their well-being or who fail to qualify for support from those services. Consequently it has been renamed "social services". The function comprises the following eight sub-functions:

- (a) Social security - Includes government outlays relating to contributory plans, such as the Canada Pension Plan and the Quebec Pension Plan, and non-contributory plans, such as old age security. Contributions of governments to their own plans are not considered as expenditures (see Paragraph 5.03).
- (b) Labour force plans - Includes expenditure on administration and for benefits, other than hospital and medical care, related to unemployment insurance and workers' compensation schemes.

- (c) Family allowances - Includes allowance payments made under the universal federal government Family Allowance Program and the supplementary family allowance payments made by the province of Quebec.
- (d) Veterans benefits - Includes in the sub-function all expenditures related to veterans services. As well as administrative costs, pensions, allowances and grants, it includes outlays pertaining to the administration of veterans hospitals, to the provision of medical supplies and prosthetic appliances, to the provision of medical, educational and social welfare services and to the forgiveness of loans under the Veterans Land Act.
- (e) Motor vehicle accident compensation - Includes indemnities to victims of motor vehicle accidents paid by la Régie de l'assurance automobile du Québec and payments from Unsatisfied Judgement Funds. The latter payments were previously classified under "regulatory services".
- (f) Social welfare - Comprises the following four categories:
 - (i) Social welfare assistance - Covers payments which relate to various general assistance programs, e.g., old age, unemployment and needy persons assistance, blind and disabled persons allowances and subsistence payments to persons undergoing retraining. Expenditures on programs designed to assist individuals to meet a single type of living costs, e.g. rent, health insurance premiums etc., are not classified to this sub-function but to the function to which they relate, i.e., housing, health etc.

- (ii) Social welfare services - Accounts for expenses related to welfare agencies, to the provision of services to the aged and children, to legal aid, to the operation of homes for the aged and to other similar services.
- (iii) Ex-gratia pensions and allowances - Includes non-statutory payments, such as grants to individuals who have suffered damage from natural disasters, and statutory payments, whose amounts are indeterminate, such as criminal injury compensations. The latter payments were classified formerly under "regulatory services".
- (iv) Other social welfare - Is a residual category including administrative and other expenditure which cannot be allocated to any of the above categories.
- (g) Tax credits and rebates - Were originally devised by provincial governments to encourage home ownership by offsetting, in part, municipal real property taxes. They were, therefore, classified to the "housing" function. In recent years, however, such credits and rebates have been used more and more as instruments of social policy to offset taxation on the elderly and the disadvantaged and, in certain jurisdictions, as income supplements for those with no tax liability (see also Paragraph 5.08). Consequently this sub-function has been reclassified to "social services".
- (h) Other social services - Relates to spending for administration of social welfare programs which cannot be allocated to more specific sub-functions or in respect of general support for the provision of social welfare services such as research and planning, statistical compilation, investigation and counselling services.

6.25 Education

This function includes the costs of developing, improving and operating educational systems and the provision of specific educational services.

It is sub-divided into the following four sub-functions:

- (a) Elementary and secondary - Encompasses outlays for educational services from kindergarten to senior matriculation. It also includes expenditure for technical and vocational training which is provided separately at the secondary school level as well as expenditure for general administration and maintenance of standards, the registry of teachers (formerly under "regulatory services"), the construction of buildings and the operation of education programs. Also included are expenses for pupil transportation, and for text books, equipment and supplies used in the education process. Schools for the handicapped and schools for Indians and Inuit come under this sub-function.
- (b) Postsecondary - Covers transfers or direct expenditures for the operation of universities and other institutions providing instruction at the postsecondary school level. Included in these institutions are teachers' colleges, advanced technical institutes and junior colleges, music conservatories and schools specializing in the instruction and training of artists, and nursing education provided by universities and colleges. Also included are bursaries and scholarships. The particular types of expenditure covered by the sub-function are essentially similar to those referred to in connection with the sub-function "elementary and secondary".

- (c) Special retraining services - Comprises outlays made for the purpose of up-grading the skills of individuals. One of the main items is the cost of courses provided under the federal manpower training program.
- (d) Other - Covers outlays that either overlap or cannot be allocated to the other sub-functions. It includes the general administration expenses of departments of education, the costs of statistical and research activities pertaining to education and the expenses of apprenticeship training. Payments made by one government to another or to the private sector to encourage proficiency in the official languages are also included, as are costs of special instructional arrangements such as evening classes and correspondence courses.

6.26 Resource conservation and industrial development

The two former functions: "natural resources" and "agriculture, trade, industry and tourism" have been combined to form a single function: "resource conservation and industrial development". With the evolving role of government in the field of natural resources, it has become virtually impossible to determine where the conservation aspect ends and where the industrial development aspect begins. For instance, the "forest" sub-function includes expenditure on forest protection and reforestation, which may be considered as forest conservation, and on promotion and marketing of forest products, which may be looked at as industrial development. To avoid an arbitrary segregation between conservation and development, it is preferable to report under a more broadly defined

function all expenditure related to the two aspects. However, any changes to the components of any sub-function are of minor statistical significance. The function has nine sub-functions:

- (a) Agriculture - Covers outlays for drainage and irrigation of farm land; agricultural research and development; agricultural protection and quality control (formerly under "regulatory services"); inspection and veterinary care of farm animals; weed and agricultural product pest control; control, regulation, promotion and marketing of farm production; bonuses and subsidies in support of farm production; grants to agriculture and farm-oriented organizations, and soil survey and conservation.
- (b) Fish and game - Includes outlays for research in fish and wildlife pathology, control and regulation of fishing and hunting activities, promotion and marketing of sea foods and animal furs, conservation and rehabilitation of fish and game stocks, and financial assistance to commercial fishermen and hunters. Some of the outlays allocated here, such as the remuneration of fish and game wardens, might also be brought under "recreation and culture - recreation" (see Paragraph 6.28 below); in instances of this kind of overlap, however, priority is given to the "fish and game" classification.
- (c) Forests - Embraces expenditure for the inspection and survey of forest resources, forest ranging and fire control; research into the causes, prevention and cure of tree diseases; construction of logging roads; measurement of forest products; promotion and marketing of forest products; reforestation and grants to forestry-oriented organizations.

- (d) Mines and oil and gas - Cover outlays for the control and regulation of mining, oil and gas exploration and development, geological and mineralogical survey and research, mineral testing and assaying, construction of mining and oil and gas field roads, promotion of mining and of oil and gas products, bonuses and subsidies in support of mining activities, and special instruction courses pertaining to mining, oil and gas activities. Compensation payments to refiners paying world prices for imported oil or oil derived from tar sands are classified to the "oil and gas" sub-function as are outlays incurred by the National Energy Board (formerly classified under "regulatory services").
- (e) Tourism - Accounts for spending in respect of tourist bureaus, camping sites outside public parks, the improvement and expansion of hotel facilities and the promotion of tourism. It also includes outlays for the promotion of convention facilities.
- (f) Trade and industry - Accounts for expenditure on the promotion, protection and development of general industrial and commercial activities. It includes the expenses of departments or agencies established to serve such purposes as well as grants and subsidies made to business concerns to further them. Expenditures of the Corporate Affairs Branch of the federal department of Consumer and Corporate Affairs, the Tariff Board and the Foreign Investment Review Agency, which were formerly included in the sub-function "regulatory services", are now classified under "trade and industry". In addition, a few provincial programs have been removed from "regulatory services" to be included in "trade and

industry". These include the registry of companies, corporate affairs and administrative services and companies branches. Finally, the "trade and industry" sub-function also includes expenditure on industrial parks and commissions and on assistance to industrial development incurred mainly at the local government level.

- (g) Water - Covers expenditure for hydraulic research and survey, control and regulation of dams and other water storage facilities, promotion and planning of hydraulic power installations and flood control measures.
- (h) Other - Used to classify expenditure of a general nature on resource conservation and industrial development and, in particular, the administration expenses of government departments entrusted with responsibilities that straddle more than one sub-function.

6.27 Environment

While certain components of this function are similar to some sub-functions of "protection of persons and property" and others with sub-functions of "health", they are grouped in this function through their common aim of ensuring the most favorable environment for people and of minimizing the deleterious effects of modern living on that environment. There are five sub-functions:

- (a) Water purification and supply - Covers outlays for the construction, operation and maintenance of water acquisition, treatment and distribution facilities. It also includes grants and subsidies in aid of research in this field.

- (b) Sewage collection and disposal - Provides for expenditure on the construction, operation and maintenance of sewage removal and treatment facilities including expenditure on sanitary sewers and combined sanitary-storm sewers (separate storm sewers are classified under "transportation and communications - roads", see Paragraph 6.22), booster stations, reclamation of sludge areas, and on inspection, cleaning and flushing of sewers. It also covers grants and subsidies in aid of research to cope with sewage problems.
- (c) Garbage and waste collection and disposal - Includes outlays for these services as well as expenditures for incinerators, nuisance grounds or dumps for garbage and for waste disposal purposes.
- (d) Pollution Control - Provides for expenditure on the prevention of pollution and on obviating its detrimental effects on the environment, but only where such expenditure cannot be allocated to a more specific sub-function, e.g., "garbage collection and disposal", "fish and game", or "recreation", etc. The sub-function accounts for outlays on general research and control activities; it includes grants and subsidies toward the development and use of anti-pollution devices and toward undertakings designed to restore or maintain a healthy environment.
- (e) Other - Encompasses miscellaneous expenditure relating to the "environment" function which cannot be identified with any specific sub-function or which applies to several sub-functions, e.g., the administrative expenditure of a department of the environment.

6.28 Recreation and culture

The purpose of this function is to portray government participation in the field of leisure either through developing, improving or operating leisure facilities or through assistance payments to individuals and private organizations engaged in promoting leisure activities. The principal sub-functions are "recreation" and "culture". These sub-functions, however, are not mutually exclusive; frequently a given set of installations serves both recreation and culture ends. In such cases expenditure is allocated to the sub-function relating to major or predominant use made of the installations. The particular sub-functions are as follows:

- (a) Recreation - Includes outlays on stadiums, community centres, swimming pools, beaches, marinas, golf courses, skating rinks and arenas, amusement parks, exhibition grounds, parks and playgrounds. While expenditure on parks can be a "resource conservation" function, such expenditure is classified as "recreation" because of the association of these parks with leisure activity.
- (b) Culture - Here outlays are recorded on archives, historic sites, art galleries, museums, libraries, centres for the performing arts, zoos, aquariums, aviaries and planetariums.

Both categories take into account expenditure in the form of grants in aid of recreation and culture as well as expenditure on facilities.

- (c) Other - Encompasses administrative expenditure of departments and agencies with activities spanning both recreation and culture as well as expenditure on cinematography, amateur sport and miscellaneous services related to recreation and culture.

6.29 Labour, employment and immigration

Outlays included in this function are related to the development and promotion of labour relations and fair employment conditions, as well as to various immigration programs. The function has three sub-functions:

- (a) Labour and employment - Provides for expenditure for labour market research and matters pertaining to employer and employee relations, including the promotion of improved working conditions and the provision of arbitration and conciliation services in collective bargaining. It also covers the expenditure of employment agencies such as the National Employment Service and those of similar governmental agencies or institutions as well as that pertaining to the application of employment standards and minimum wage laws which were formerly accounted for under "protection of persons and property - regulatory services".
- (b) Immigration - Takes account of expenditure on the promotion of immigration and on assistance to immigrants and also includes outlays incurred in controlling the entry of individuals into the country.
- (c) Other - Includes the administration expenditure of government departments or agencies whose activities straddle the "labour and employment" and "immigration" sub-functions. It also includes expenditure for the registration of citizens and the promotion of citizenship-oriented activities.

6.30 Housing

In the past this function identified only those government activities in the field of housing which were carried on by agencies other than

enterprises. It is now recognized that, whatever their original powers or activities, these utilities - principally Canada (formerly Central) Mortgage and Housing Corporation and the provincial, territorial and local housing and mortgage corporations - have not qualified as enterprises for some years since revenues derived from their own sources are consistently less than 50% of their total revenues. The function, therefore, now includes all government expenditures on housing.

Government expenditures on housing are of two kinds: expenditures arising from the operations of departments and special funds as builders and real estate operators together with ancillary activities, and expenditures to assist others to carry out similar activities. The function "Housing" has two sub-functions - "Housing operations" and "Housing assistance". Three classifications are identified in "Housing operations":

- (a) Construction - Covers government expenditures on additions to and renovation or improvement of the stock of housing which it owns.
- (b) Rentals - Covers expenditures on the operation and maintenance of rental housing owned by government.
- (c) Other operations - Covers expenditures on research, general administration and other activities related to housing operations but not classified elsewhere.

Housing Assistance is classified as follows: -

- (d) Construction assistance - Includes transfers to individuals, groups, corporations and to other governments (and their special funds) to assist in providing additions to the existing stock of housing not owned by the transferring government or to renovate or improve that stock.
- (e) Rental assistance - Includes transfers to owners of rental accommodation to enable them to provide housing at less than market rates. Note, however, that transfers to persons to enable them to rent accommodation which are included in general assistance payments which also cover food, clothing etc. are classified to Social welfare assistance.
- (f) Home buyers assistance - Covers amounts paid to qualified persons to assist them to buy homes.
- (g) Other assistance - Includes all other forms of assistance related to housing.

6.31 Foreign affairs and international assistance

This function provides for expenditure pertaining to the formal relations of Canada with other sovereign states. It accounts for contributions made to foster economic development and to improve social conditions in foreign lands, e.g., the expenditure of the Canadian International Development Agency. (Expenditures on trade or immigration promotion abroad and cultural exchange with foreign countries are respectively classified under "trade and industry", "immigration" and "culture".)

6.32 Regional planning and development

This function was termed "supervision and development of regions and localities". It has been redefined to give more detail on the components of expenditure, and to permit the identification of particular expenditures according to the following four sub-functions:

- (a) Planning and zoning - Includes expenditure of planning boards, on research and planning, official plans and the operations of departments and agencies entrusted with matters relating to planning and zoning.
- (b) Community development - Accounts for expenditure of departments and boards or commissions engaged in urban renewal projects, beautification and land rehabilitation, general land assembly as well as expenditure specifically made for such programs.
- (c) Regional development - Records outlays on the administration and operations of federal and provincial departments and agencies entrusted with specific responsibilities for regional development and assistance, e.g., the National Capital Commission, the federal Department of Regional Economic Expansion and provincial departments of Municipal Affairs. It also includes expenditure of commissions, boards or authorities established to plan and promote the development of particular regions.
- (d) Other - Covers all expenditure which cannot be specifically attributed, such as expenditure for the establishment of standard municipal assessment procedures, approval of municipal budgets and administration of assistance for municipal financing.

6.33 Research establishments

This function provides for expenditure pertaining to organizations like the National Research Council, Atomic Energy of Canada Limited and provincial research councils whose prime purpose is pure or applied scientific research and the promotion of developments resulting from such activities. Also included are grants to individuals and non-government establishments engaged in similar types of research. It does not cover the expenditure of the Medical Research Council which is allocated to the function "Health".

6.34 General purpose transfers to other levels of government

As in the case of revenue, intergovernment transfers are classified and specified by level of government. The main federal general purpose transfers paid are described in Paragraphs 5.28-5.33 and 6.17. Transfers paid in lieu of property taxes are identified at each level of government.

6.35 Transfers to own enterprises

This heading is used to classify amounts that are paid by a government to its enterprises for operating purposes, e.g., to cover deficits. It does not include subsidies paid to public and private concerns alike to help achieve certain economic or social objectives. These subsidies are allocated to the expenditure functions to which they are related.

6.36 Debt charges

This classification is subdivided into "interest" and "other". It excludes debt retirement.

- (a) Interest - Includes interest paid in respect of bank overdrafts, loans and advances, certificates of deposits, bonds and debentures, mortgages, notes and all other forms of borrowing.
- (b) Other - Covers commissions and other charges on sale of securities, net discounts (or the amount thereof amortized) on sale of securities, net premiums (or the amount thereof amortized) on purchase of securities, bank service charges, net losses on foreign exchange, and other charges pertaining to the servicing of the public debt excluding administrative costs which are classified under "general services".

6.37 Other

This classification provides for expenditure which cannot be allocated to any of the other functions.

PART VII

GENERAL GOVERNMENT ASSETS AND LIABILITIES AND SOURCE AND APPLICATION OF FUNDS

Introduction

7.00 The unification convention, described in Paragraph 5.01, and the acceptance of the supplier's basis of accounting, as set out in Paragraph 4.06, are of special importance in the application of the Financial Management System to the balance sheet and the statement of source and application of funds. As is the case with revenue and expenditure, the unification convention requires the consolidation of the assets and liabilities in the various sets of accounts of a government and its boards, agencies and commissions (other than enterprises) to produce a set of unduplicated data for that government. The acceptance of the supplier's basis of accounting, which, almost invariably, is some form of the modified cash basis, is due to a lack of information on which to adjust data to a common basis. Nevertheless, some modifications are made to the supplier's data, particularly in the area of assets and liabilities. A few provinces and most local governments still include fixed assets in their balance sheets and some of these governments also include inventories. At the local government level the treatment of fixed assets is an outcome of the method of recording debt. (Since debentures can only be issued to acquire fixed assets, the resulting purchases are equated with the debt incurred; repayments of the latter result in either a corresponding reduction in fixed assets or an increase in

capital surplus.) At the provincial level, fixed asset values, where recorded on the balance sheet, are less directly related to debt issues; normally such values are set at historic cost. At the federal level, fixed asset values are not normally recorded as balance sheet items. Thus, to achieve consistency for purposes of the Financial Management System, the cost of acquiring fixed assets is treated as an expenditure at the time of acquisition and is allocated to the appropriate function. Similar treatment is accorded to inventories to achieve consistency among all governments.

7.01 To complete the conversion of government balance sheet data into statistics of financial assets and liabilities, the Financial Management System embodies a number of other conventions, not all of which are universally employed in government accounting.

(a) Assets and liabilities are reported gross, i.e., any netting by government of assets against liabilities (or vice versa) is nullified. For example, sinking fund assets, which are commonly deducted from outstanding debt in government financial statements, are included as assets in financial management statistics while outstanding debt is reported at the gross amount. Netting of valuation allowances, e.g. provision for doubtful accounts, does not conflict with the gross convention. Such valuation allowances, as their name indicates, are deductions from the stated value of assets to reduce the latter to their estimated realizable value. Netting in this instance does not result in offsetting assets

against liabilities or vice versa, as in the treatment of sinking funds by governments; rather it produces a more accurate statement of asset values. However, a departure from the gross convention is required in the treatment of outstanding cheques. Since these are not reported as liabilities by many governments, in order to achieve consistency outstanding cheques, where identified, are deducted from "Cash on hand and on deposit" (see Paragraph 7.08).

- (b) Since the Financial Management System includes among its objectives the measurement of government's financial relationships with those outside its universe, a government's holdings of its own securities should be netted against its gross securities outstanding. In practice this is often not possible. While governments, almost without exception, identify their holdings by level of government, they frequently do not distinguish them from those of other governments at their level. To maintain consistency, therefore, Statistics Canada only nets holdings of own securities of a particular government against its gross securities outstanding, when such holdings are identifiable in the accounts of all governments at that level. In practice this netting only takes place for the federal government.

However, when asset and liability statistics for all governments at either the provincial or the local level are consolidated, total holdings of securities of a level of government are netted against gross securities outstanding. Similar netting takes place among

levels of government when two or more consolidated levels are themselves consolidated. Thus the amount shown in the tri-level consolidation of all governments as securities outstanding represents outstanding borrowings by all governments by way of securities sold to government enterprises and non-government entities, i.e. gross securities issued and outstanding less those held by governments.

- (c) Many governments establish reserves for designated future uses. For purposes of the Financial Management System, such reserves are regarded as appropriations of the financial management surplus but, because of the wide variety of reserve accounts, they are not identified separately from that surplus (excess of financial assets over liabilities).

7.02 Assets and liabilities are given the conventional accounting meanings of these terms. Data on assets are presented in a framework designed to show the major categories of assets and their components, in descending order of liquidity, the debtor, and supplementary information (e.g., type of security). The framework for the liability data parallels that of the asset side. This framework is set out in Appendix A, Tables 3 and 4.

Financial Assets

- 7.03 Cash on hand and on deposit - This category distinguishes between Canadian and foreign currency. Canadian currency is further classified into cash on hand, including amounts in transit and in the hands of collectors, deposits in chartered banks, in government financial institutions (e.g., Alberta Treasury Branches) and in other financial institutions. Foreign holdings are shown at the Canadian dollar equivalent as converted by the government concerned.
- 7.04 Receivables - General government data prepared in accordance with the Financial Management System include year-end accruals (see Paragraph 4.06). This category is normally restricted to revenue earned but not yet collected and which presumably will be received in the near future, e.g. receipts pending for goods and services delivered. Six kinds of receivables are identified. "Taxes" includes all taxes receivable including arrears. The category "interest" is self-explanatory, while "trade accounts" is used for reporting amounts due arising from government's sale of goods and services. General and specific purpose transfers among governments are covered under the heading "governments", and all receivables due to governments from their own enterprises are reported under "government enterprises". "Other" is a residual category for receivables by government from the general public other than identifiable taxes, interest and trade accounts.

7.05 Advances - Where a government makes funds available to other governments, to Crown corporations or to other entities and no specific securities are reported as having been issued by the borrower and lodged with the lender, the amounts concerned are classified under this category. The breakdown of this category is "governments", "government enterprises", "individuals", "private enterprises", "private hospitals", "universities" and a residual category "others".

7.06 Securities - Encompasses the holdings of all securities regardless of whether they are acquired as a consequence of public policy (e.g. to secure loans) or for investment purposes, and whether such acquisitions are made through investment dealers (market securities) or directly from the issuers (non-market securities).

Securities are broken down into domestic and foreign securities. Domestic securities are classified into five categories: "treasury bills", "bonds and debentures", "shares", "mortgages and agreements for sale" and "other securities". These are further identified according to the issuer: "governments", "government enterprises", "private enterprises", "private hospitals", "universities" and "others". Foreign securities are shown at the Canadian dollar equivalent as converted by the government concerned.

Shares are classified under the title "government enterprises" only in cases where government owns over 50% of the entity's voting stock (see Paragraph 3.11). All other holdings of corporation shares are classified under the sub-caption "private enterprises".

7.07 Other financial assets - Encompasses financial assets which cannot be assigned to more specific classification categories. It includes debit balances in suspense accounts and is also used for recording residual interfund and intergovernment adjustments which are required on consolidation (see Paragraphs 5.16 and 9.05).

Liabilities

7.08 Bank overdrafts - Bank overdrafts as reported by the governments concerned are classified in this category. Where deposits are insufficient to cover reported outstanding cheques (see Paragraph 7.01(a)) the amount of such deficiency is added to reported overdrafts.

7.09 Payables - This category is normally restricted to expenditures (resulting from regular operations such as the purchase of goods and services and transfers to other levels of government, etc.) incurred but not yet paid. The basic structure of this category parallels that set out for receivables (see Paragraph 7.04). The individual items within the category are self-explanatory.

7.10 Bank notes in circulation - The amounts shown under this classification represent the total supply of bank notes in circulation at the end of a reporting period as stated by the Bank of Canada.

7.11 Advances - This heading parallels the corresponding classification on the asset side but the number of sub-headings is fewer in accordance with the "normal" borrowing channels used by governments.

- 7.12 Treasury bills - Both short and long-term treasury bills are included under this category.
- 7.13 Savings bonds - Data indicated under this caption refer to the amounts of government savings bonds held by the general public who alone can purchase and hold such bonds.
- 7.14 Bonds and debentures - This category is made up of four sub-classifications: "governments", "government enterprises", "government-employee trustee pension plans" and "general public". The first three identify bonds and debentures issued as securities for direct borrowings from entities within these groups. The last "general public", identifies issues placed privately with other lenders or sold on the open market. Such issues are identified as payable in Canadian, in United States or in other foreign currencies.
- 7.15 Other securities - Takes account of securities issued which cannot be classified in the above categories either because of the type of securities involved (e.g., various kinds of notes) or because of lack of precise information in source documents.
- 7.16 Deposits - This category includes trust deposits, as explained in Paragraph 3.19, the deposits of excess working funds of enterprises such as the amounts held by certain provincial governments for the account of their Treasury branches or equivalents, deposits of contractors held against their satisfactory performance of work and other miscellaneous deposits of indeterminate duration.

7.17 Other liabilities - This is a residual category for amounts which cannot be reported under a more specific heading. As in the case of "other financial assets" (see Paragraph 7.07) it is also used for recording residual interfund and intergovernmental adjustments which are required on consolidation.

7.18 Excess of financial assets over liabilities or (excess of liabilities over financial assets) - The accumulated surplus (or deficit) account in the Financial Management System, it consists of the accumulated surplus or deficit at the end of the immediately preceding accounting period adjusted to reflect:

- (a) The financial management surplus or deficit for the current period which is the difference between gross general revenue and gross general expenditure.
- (b) Changes in the classification of entities: when, for example, a special fund is reclassified as an enterprise, the difference between financial assets and liabilities attributable to that entity is eliminated from the accumulated surplus or deficit account. The reverse is true when an enterprise is reclassified as a special fund.
- (c) Adjustments to transactions of prior years to take account of changes in government accounting policies or practices. For example, when it is decided that disbursements, which in previous

years were regarded as financial assets, should in fact have been treated as expenditure when made, such disbursements are classified as current year expenditure. The accumulated disbursements of prior years, which were shown as an asset, are eliminated by an adjustment to the accumulated surplus account. The reverse is also true in cases where disbursements, previously classified as expenditure, are subsequently deemed to be assets.

Source and Application of Funds

7.19 The statement of source and application of funds provides a framework for the analysis of the funds available beyond the gross general revenue framework and the use of these funds beyond the gross general expenditure framework. All such statements, whether on business or on government, are similar in nature; they show the funds available from current operating surplus and from transactions involving increases in liabilities and decreases in assets, and the application of such funds, namely the covering of current operating deficits, increases in assets and decreases in liabilities. In form and detail, however, statements on government depart from those generally used by business; the former are oriented toward the identification of intergovernment transactions, transactions between general government and government enterprises, other domestic transactions and foreign transactions (see Appendix A, Table 5).

7.20 Since capital revenue and expenditure of government are included in gross general revenue and expenditure and thus in the financial management surplus or deficit, they do not form separate items in the source and application of funds statements on government as they usually do in similar statements on business.

7.21 In completing the table of source and application of funds only net amounts are normally reported for each item. Thus, if borrowings through bonds and debentures issued to foreign entities are less in the period under review than repayments of earlier similar borrowings, the net excess of repayments only is reported as an application of funds for this category. Conversely, if borrowings are greater than repayments, that excess is reported as a source of funds. However, in cases where an extraordinary item would produce a significant deviation from normal in a particular category - e.g., if, as a result of such an event, a normally relatively small source of funds is transformed into a large net application - then source and application will be reported gross for the category to highlight the unusual occurrence.

7.22 Table 5 provides for the identification of various types of transactions which give rise to funds and to which funds are applied. These are:

- (a) Financial management surplus or deficit for the period - Accounts for the financial management surplus or deficit, as defined in Paragraph 7.18(a); this is not to be confused with budgetary surplus or deficit.

- (b) Changes in the classification of entities - Includes the adjustment resulting from such changes, as described in Paragraph 7.18(b).
- (c) Changes in accounting policies and practices - Reflects adjustments as described in Paragraph 7.18(c).
- (d) Changes in borrowings - Provides for the identification of the financial instruments by which government borrowing takes place, namely advances, treasury bills, savings bonds, bonds and debentures and other securities. It identifies domestic versus foreign borrowing and indicates the role of each level of government and its enterprises as suppliers of funds.
- (e) Changes in advances and in security holdings - Accounts for the source and application of funds resulting from the acquisition or the disposal of financial assets through advances, treasury bills, bonds, debentures, shares, mortgages and other securities. Due to the importance of transactions among Canadian governments, the breakdown provides for the identification of each level of government and its enterprises in addition to transactions on the domestic and foreign markets.
- (f) Changes in other assets and liabilities - Accounts for changes within the reference period in the other categories of assets and liabilities which represent sources or applications of funds. It

includes cash on hand and on deposit, receivables, other financial assets, bank overdrafts, payables, deposits due and other liabilities.

- (g) Discrepancy - Theoretically the source and application of funds statement should account for all changes to the balance sheet occurring within an accounting period. In practice this is difficult to achieve within processing time schedules and with limited resources. Thus complete reconciliation is not pursued; rather, minor discrepancies are carried under this heading.

PART VIII

CLASSIFICATION OF FINANCIAL MANAGEMENT STATISTICS IN ECONOMIC TERMS

Introduction

8.00 After the description of the Financial Management System was published in 1971, the Public Finance Division attempted to develop a meaningful reconciliation statement between its financial management data and corresponding data cast in the framework of the System of National Accounts. Skeletal statements were published for several years but efforts to improve upon them were repeatedly frustrated by the very complex nature of the exercise; virtually every move toward clarifying the transition from one series to the other meant the isolation of detail which itself tended to deny the very objective of the statement. The inevitable conclusion is that the two series differ too greatly to allow for a reconciliation statement of sufficient value for analytical purposes. Further, it seems the earlier reconciliation statements sometimes created the impression that similarities between the two sets of data outweighed their differences to such a degree that the data were almost interchangeable. Consequently, the reconciliation between the two sets of data has been abandoned.

8.01 The principal differences between the two series are described in the Note following this Part. However, it may be sufficient to recall that,

for purposes of the Financial Management System, government is defined on an ownership basis and data on its financial transactions are oriented toward depicting its overall position as a provider of specific services. Under the Canadian System of National Accounts the ownership concept is subordinate and government is defined in terms of its particular role in the economy; data on government financial transactions are oriented toward reflecting economic impact.

Both these measures of government financial activity are valid; each has its purpose. The two sets of data are related and to each can be added some of the dimensions of the other but clearly the measures are not of one and the same identity; they differ in approach and do not address the same phenomenon. In the future, therefore, the classification of financial management data in economic terms is to be modified and a functional breakdown of the government sector expenditures of the System of National Accounts is to be developed.

8.02 The cross-classification of financial management revenue and expenditure in economic terms portrays the relative burdens imposed on the other parts of the economy by the various methods government uses to raise revenue and the corresponding impact of the disbursement of that revenue. The impact of government revenue raising is shown by allocating the total amount raised under each financial management caption to its sector of origin, i.e., persons, business, other governments and non-residents. The cross-classification of financial management expenditures in economic terms provides insight into the

methods used by governments to deliver services. Thus payments for the purchase of goods and services indicate that a particular service identified with the sub-function concerned is provided directly by the government. Transfers to other governments and to business imply the provision of the service by proxy. Transfers to persons can be construed as providing these recipients with the means to acquire the intended service. Finally, transfers to non-residents can be viewed as enabling Canadians living abroad to acquire services or as assisting foreign governments to provide services to their citizens.

8.03 For purposes of economic analysis the national economy is comprised of four interacting sectors - persons, government, business and non-residents. These are described in detail in the Statistics Canada publication "National Income and Expenditure Accounts, Volume III" (Catalogue 13-549, 1975, pp. 102-3) from which the following brief descriptions have been developed.

Persons - This sector comprises persons, households and private non-profit organizations, such as universities, labour unions and professional organizations as well as trustee pension plans.

Government - The government sector, in addition to all government departments and non-commercial agencies, includes hospitals and the Canada and Quebec Pension Plans. (All government activities of a commercial nature are located in the business sector.).

Business - In addition to those categories of profit-oriented entities normally associated with the term business - corporations, unincorporated businesses and professional practitioners - government entities with a similar orientation are also included as previously noted. Certain activities in the personal sector are also allocated to the business sector. Owner-occupiers of residential dwellings (but, see Paragraph 8.04) and private non-profit organizations constructing new buildings are assigned to this sector since these particular activities contribute to fixed capital formation which, by definition, can only take place in the government and business sectors.

Non-residents - This sector includes all persons, businesses, non-profit institutions and governments not normally resident in Canada. Branches and subsidiaries of foreign corporations are classified as residents for economic purposes.

8.04 Paragraph 8.02 refers to an "ideal" cross-classification of financial management statistics in economic terms. At present a number of difficulties, partly involving concepts and partly involving data identification, stand in the way of fully achieving this "ideal". Under the System of National Accounts, transactors are assigned to a particular sector on the basis of the nature of their transactions, e.g., individuals who are self-employed professionals are classed as businesses rather than persons. Similarly, transactors move from one sector to another depending on the economic activity in which they are engaged, e.g., residential owner-occupiers form part of the business

sector for transactions affecting their residences but remain in the personal sector for all other transactions. These concepts have no counterparts in the way the Financial Management System views such individuals or entities. Government financial reports, which form the basis of financial management statistics, do not differentiate between persons as components of the personal sector and as components of the business sector. Thus owners of unincorporated businesses and members of partnerships are regarded by governments as persons and, consequently, pay personal, rather than corporation, income taxes. Another conceptual difficulty arises from the integration in the general government universe of the Bank of Canada and the Post Office. In the System of National Accounts these are reflected in the government sector only to the extent of their net transactions with that sector.

8.05 Further difficulties arise from the difference in the ways in which government accounts and economic theory view the events with which they deal. Thus, on the revenue side, government accounting is concerned with the types of revenue being acquired rather than the sectors from which it is drawn. Although greater attention is now being paid to the origins of particular types of revenue and increasing sophistication of accounting methods and systems makes such discrimination possible, in many important areas it is still impossible to allot revenue items to their originating sectors with any validity. A prime example is real property taxation but there are many more. Similarly, while most transfers from government can be assigned to their appropriate sectors with reasonable certainty, information on the sectors of origin of signifi-

cant amounts of the goods and services purchased by governments is lacking. Thus, the "ideal" cross-classification is not possible as yet, but moves toward it are. The cross-classification framework used in the Financial Management System is set out in Appendix C, Tables 9 and 10. Paragraphs 8.06 and 8.07 describe the classifications contained in those tables.

Financial Management Economic Classifications

8.06 Revenue - Financial management revenue is cross-classified in accordance with its sector of origin, i.e. persons, business, other levels of government and non-residents. However, until all the data necessary to differentiate revenue origins between the business and personal sectors become available two conventions are employed. Where it is known that a small part of a particular revenue category originates in a different sector from the great bulk of the category but the actual amount cannot be identified or estimated, the whole is classified to the major sector. Where the amounts originating in both the personal and business sectors are significant but cannot be separately identified or reasonably estimated, the whole is classified to a third category: "Unspecified".

8.07 Expenditure - Problems similar to those described in Paragraph 8.06 also arise in identifying the sectors of origin of government purchases of goods and services and require a major departure from the "ideal" cross-classification. At present the only disaggregation possible is of sa-

laries and wages of government employees, which form the principal component of purchases of services from persons. For the time being "Purchases of goods and services" is divided into "Wages and salaries" and "Other" only. Even here there are major problems in breaking down government wage-bills particularly at the local government level where individual employees in smaller governments may discharge several functions. It should be noted that purchases of land and used fixed assets together with interest expenditures are classified to "Purchases of goods and services" in this cross-classification. Transfers are identified by sector of receipt which is generally self-explanatory. However, the category "Transfers to persons" includes, in addition to "social services" payments, amounts transferred to universities and other non-government postsecondary educational institutions and to private non-commercial organizations. Also included in this category are pension payments from government operated pension plans and homeowners' subsidies. "Transfers to non-residents" accounts for pensions and other benefits paid abroad and for international assistance payments.

Functional Classification of National Accounts Expenditure

8.08 The government sector of the System of National Accounts has six components - the federal, provincial and local governments, hospitals and the Canada and Quebec Pension Plans. Expenditures within each of these are identified in terms of current expenditure on goods and services, transfer payments to persons, subsidies, capital assistance, current trans-

fers to non-residents, interest on the public debt and current transfers to other levels of government. Obviously the significance of these data is greatly enhanced if the purposes behind them are identified by cross-classifying them functionally, particularly when this information is provided quarterly with the main National Income and Expenditure Accounts. However, because of the different concepts and universes underlying the two systems, there will be major differences between these "functionalized" national accounts expenditures and financial management expenditures for the same government(s) and reference period.

Note on conceptual differences between the Financial Management System and the System of National Accounts

In addition to the differences indicated in Paragraph 8.01, there are other dissimilarities between the two systems. The following are examples.

- (a) While the Financial Management System is on a modified cash basis (see Paragraph 4.06) the System of National Accounts uses accrual accounting, although this is restricted in the government sector (by lack of data) to corporation income tax, direct taxes on non-residents (withholding taxes), oil export taxes, gross fixed capital formation, capital consumption allowances and certain subsidies to enterprises.

- (b) The total income and expenditure of hospitals are included in the government sector of the National Income and Expenditure Accounts. While the total financial transactions of government-owned hospitals are consolidated with those of their parent governments in the Financial Management System, transactions of non-government-owned hospitals are reflected only to the extent that government is involved.
- (c) In the Financial Management System government enterprises form one of the two universes within government but in the System of National Accounts they are excluded from government and incorporated with the business sector. In addition, the Bank of Canada and the Post Office, which do not meet the financial management criteria for enterprises, are considered respectively as a special fund and a department for financial management purposes, but are classified as enterprises in the System of National Accounts in accordance with international convention.
- (d) The Financial Management System recognizes profits of government enterprises as income of the parent governments to the extent that those profits are remitted to the latter. Conversely, contributions made by governments to their enterprises for any reason are classified as expenditure of the governments (but, see Paragraph 5.37). In the System of National Accounts, however, remitted profits of government enterprises are netted against government contributions to cover losses and the net amounts

classified as investment income (positive or negative of government. In addition, total profits of liquor authorities, whether remitted or not, are classified in the National Accounts as indirect taxes of the provincial and territorial governments.

- (e) Another major difference lies in the respective treatment of transactions involving the purchase or sale of land and used fixed assets. The System of National Accounts excludes these since they do not form part of current production. However, the Financial Management System includes them since it recognizes the proceeds of such sales as revenue and the costs of such purchases as expenditure.
- (f) While the Financial Management System requires the reporting of transactions on a gross basis, there is a certain amount of net reporting in the government sector of the System of National Accounts. In particular, sales of goods and services are netted against purchases, and tax credits against the relevant taxes.

PART IX

CONSOLIDATED GOVERNMENT FINANCE

9.00 Thus far this publication has described the application of the Financial Management System to the production of statistics for a single government. Such a government may comprise a large number of accounting entities as set out in Paragraph 3.03 but, for statistical purposes, its activities are consolidated to present information as if the government were a single unit. These consolidations, which require the elimination of intragovernmental transactions to arrive at a set of unduplicated statistics, are generally quite straightforward accounting procedures and are described in Paragraphs 5.14 - 5.16.

9.01 Beyond the primary consolidations, however, there are a number of aggregations which produce very useful statistics. For example, because of the numbers and variety of local governments, the full range of activities of this level of government within a sub-provincial region or within a province is only apparent when statistics for the many component governments of the region or province under analysis are consolidated. Secondly, there is the uneven delegation by provinces to local governments of provincial responsibilities under the Constitution which creates noticeable differences in provincial and local government financial statistics. Integration of the two levels into a single consolidated unit provides a valid basis for inter-

provincial comparisons. Thirdly, the financial impact of government on the social and economic life of the country can only be measured when data for all three levels are consolidated.

9.02 Intergovernmental transactions vary in form and nature. The most widely known are general and specific purpose transfers, purchase-sale transactions where one government buys goods or services from another government either to use or to distribute or sell to the population under its jurisdiction, borrowing from another government and the payment of related interest.

9.03 While records of intragovernmental transactions are usually easily traced and reconciled in the accounts of a single government and its agencies, it is often difficult or even impossible to match the records of particular intergovernmental transactions in the accounts of the governments involved. These difficulties arise from many causes. The governments concerned may use very different terminology in describing a transaction between them. One may record it as a single item and the other disaggregate it into several transactions. The treatments of the transaction may vary widely due to different accounting systems. Finally, the timing of the recording of the transaction may differ sufficiently for it to be recorded in different reference periods, e.g. the federal government may show a transfer to a province near the close of a fiscal year but the province may not record its receipt until the following year.

9.04 Consequently, procedures have been developed to ensure that consolidated data reflect, as clearly as possible, only those amounts (inflows) received by the consolidated governments from other entities, e.g., the public, business, non-consolidated governments and only those amounts (outflows) disbursed by the consolidated governments to these entities. These criteria also apply to consolidated assets and liabilities.

9.05 These procedures are best exemplified by describing their application to the consolidation of the revenue and expenditure of two governments. There are two cases to be considered. In the first case, where the intergovernmental transaction can be identified in the records of both governments but the amounts reported differ and cannot be reconciled, the amount recorded by the paying government is deducted from the combined revenues and the combined expenditures of the two governments. If this amount is less than that recorded by the receiving government, then the difference is eliminated from revenue and a like amount deducted from "other assets" or, if this cannot be done, added to "other liabilities". If the amount recorded by the paying government exceeds that recorded by the receiving government then the difference is added to both revenue and "other assets". In the second case, where the transaction, although obviously intergovernmental, cannot be identified in the records of one of the two governments concerned, the amount identified is deducted from the combined revenues and the combined expenditures of both governments, as in the previous case, but no further adjustments can be made.

- 9.06 There are, however, cases where intergovernmental transactions are not recorded as such in source documents; they are lumped together with related transactions occurring with entities outside the government universe. A current example is the payment (or receipt) of interest on intergovernmental loans which is recorded with total interest received or paid. As a result, the consolidated data may, and do, at times contain double counting in spite of all efforts to avoid such duplication.
- 9.07 Procedures similar to those for the consolidation of revenue and expenditure are used in the consolidation of assets and liabilities of two or more governments. As is the case for revenue and expenditure, problems of differences or lack of identification in records of transactions among governments also arise. Where related receivables and payables are identifiable but irreconcilable the amounts acknowledged by one government as payable to the other are deducted from the combined receivables and combined payables. Remaining debit or credit balances in the intergovernmental receivables are transferred to "other assets" or "other liabilities". Similarly, where only one side of the transaction can be identified, that amount is deducted from both the combined receivables and combined payables.
- 9.08 Two additional problems can arise in the consolidation of assets and liabilities. The first occurs when one side of an intergovernmental asset-liability relationship is identified only by level of government, e.g., a province may list among its investments "municipal debentures" without specifying which municipalities in which provinces issued the

debentures. If the assets and liabilities of that province are consolidated with those of its local governments then this investment cannot be eliminated against the debt of the local governments since part, if not all, of the investment may consist of debentures of municipalities in other provinces which are not consolidated. However, when assets and liabilities of all provinces, territories and their local governments are consolidated, such unspecified investments and debt can be, and are, eliminated from the combined totals of securities held and of debt since they must be included in those totals.

9.09 The second problem arises when a government issues a debenture as security for a loan from another government. The loan is recorded as such by the lending government but the security is classified by the borrowing government as debenture debt rather than as a loan payable. Although in such cases the direct linkage between the lender's asset category and the borrower's liability classification is not immediately apparent, on consolidation elimination of loans receivable against debentures payable is made if the necessary information is available.

PART X

GOVERNMENT ENTERPRISES

Introduction

10.00 The criteria used in establishing which government operations fall into the government enterprise statistical universe are outlined in Paragraphs 3.08 - 3.13 and the sources of data for these enterprises are in Paragraphs 4.07 and 4.08. Transactions between general government and government enterprises are described in Paragraphs 5.35 - 5.39. This Part deals with the statistical data published on government enterprises.

10.01 The development of the Financial Management System has been prompted primarily by the need for a framework for consistent and comparable financial statistics of government. This need arose from the lack of a single system of generally accepted principles of government accounting and financial reporting. Components of the government enterprise universe, however, (with a few minor exceptions) account for, and report on, their financial transactions in conformity with practices developed by professional accounting associations and, to a lesser extent, by the various industries of which the enterprises form parts. In consequence there appear to be at least three national frameworks under which financial statistics of enterprises can be

produced - the System of National Accounts, the Financial Management System as it applies to the general government universe and what may be termed the Business System.

10.02 While data for government enterprises are incorporated in the various statistical series which together comprise the System of National Accounts, such highly aggregated statistics do not provide the type of information nor the level of detail necessary for analyzing the activities of individual enterprises or groups thereof. Problems of a different kind inhibit the use of the general government framework of the Financial Management System for government enterprise statistics. These problems arise from basic differences in the accounting objectives of the two universes. Government accounting, whatever specific form it takes, is aimed primarily at presenting a report on stewardship, i.e., what monies did the government collect, who was responsible for spending them and were all expenditures properly authorized; the continued existence of the government is not in question. A demonstration of the present and future viability of the business, however, is at the centre of business accounting. Viability is shown by the successful outcome of current operations and the provision of adequate resources for continued operations in the future; in turn, these two criteria imply good stewardship by the managers. These conceptual differences produce practical problems, a prime example of which is the treatment of transactions affecting fixed assets. Assumption of a continuing existence removes the need for a government to distinguish between items which will be completely consumed in current activities

and those with a useful life extending into the future, i.e., current vs capital expenditures. The general government financial management framework adopts a similar approach and is consequently in direct conflict with the business approach where the separation of current and capital expenditures is of primary importance and where each class of expenditure is treated distinctively.

10.03 The conversion of data produced in accordance with business accounting principles and practices into the framework of general government financial management statistics is necessary for the many special funds (usually Crown corporations) which follow business practices. The classification of government enterprise financial data into the general government framework is, therefore, entirely possible; what is at doubt is the utility of the resulting statistics. It can be argued that the consolidation of general government and government enterprise statistics would permit the determination and consequent analysis of financial statistics for what is sometimes called the public sector. The chief object of such analysis, however, is likely to be the relationships of the public sector to the economy as a whole - a type of analysis for which the System of National Accounts is more suited.

10.04 The Financial Management System as it applies to government enterprises adheres closely to business accounting concepts, classifications and conventions. An elaboration of these matters is unnecessary here, apart from two exceptions. First, general government financial management terminology is used where it does not conflict with

business usage, e.g., in many asset and liability classifications. Second, the government enterprise financial management framework stresses the identification of transactions of enterprises with their parent and other governments and with each other. The following paragraphs highlight the principal components of the enterprise framework.

Income

10.05 The income of government enterprises is classified into "four categories". Amounts collected by enterprises on behalf of their parent governments, e.g., provincial liquor licences and permits collected by liquor authorities, are excluded from enterprise income.

- (a) Sales of goods and services - Are reported net of rebates and discounts. Significant amounts of total sales made to an individual customer or group of customers, e.g., from a provincial power corporation to its municipally-owned distributors, are separately identified wherever possible.
- (b) Investment income - Comprises three sub-classifications: interest, rentals and other investment income. Interest, in turn, is classified by origin - governments, government enterprises and other sources. Amounts classified to the first two are further identified by level of government. The subclassification "rentals" is self-explanatory while "other investment income" includes such items as dividends and profits on foreign exchange operations.

- (c) Subsidies - Are contributions from governments toward current costs of production to encourage certain types of production, to assist producers in areas of special difficulty, to protect producers against declines in the prices of their products or to support socially desirable activities. Contributions are identified by level of government. Payments in respect of losses are recorded in the Statement of Unappropriated Surplus.
- (d) Other income - Comprises all income not otherwise specified.

Expenses

10.06 Government enterprise expense comprises six principal categories:

- (a) Salaries and wages - Includes total remuneration to employees for services rendered.
- (b) Materials and other purchases - Significant amounts of purchases from a single supplier, e.g. by a municipal electric utility from a provincial power corporation, are reported separately where identifiable.
- (c) Debt charges - Includes interest and other debt charges. Interest expense is identified in terms of the payees - governments, government enterprises and others. The first two categories are

sub-divided by level of government. Other debt charges are comprised of amortization of bond discount and bond issue and redemption expenses.

- (d) Grants in lieu of taxes - Consist of transfers, mostly to local governments, that government enterprises make instead of paying property taxes.
- (e) Provision for depreciation and depletion - Records the amount reported by the enterprise, regardless of the method of computation.
- (f) Other expenses - Includes allowances for doubtful accounts, losses on foreign exchange transactions and expenses not classified elsewhere.

10.07 Income tax - Federal corporation income tax (but not provincial) is payable by federal "proprietary" corporations; these are identified in Section D of the Financial Administration Act. All other federal, provincial and local enterprises (except subsidiaries of such enterprises) are exempt from federal and provincial corporation income taxes unless they are less than 90% owned by the Crown. Subsidiaries are only exempt if they are owned 100% by enterprises which are themselves exempt.

Unappropriated Surplus

10.08 The statement of unappropriated surplus (Table 7) summarizes those transactions which take place in the accounting period under review and

which, while not classified as income or expense, affect the surplus of an enterprise but cannot be directly assigned to appropriated or contributed surplus. The classifications used are self-explanatory.

Assets, Liabilities and Net Worth

10.09 The balance sheet classifications used for government enterprise statistics (see Table 8) follow closely those developed for general government statistics, with the modifications required to accommodate those transactions of a business nature which are peculiar to government enterprises. The main items introduced are described below whereas those which are used for both general government and government enterprises have been described previously in Part VII.

10.10 On the asset side, the following additions have been made:

- (a) Cash with provincial governments - This sub-heading of the classification "Cash on hand and on deposit" accommodates the practice of certain provinces which require their enterprises to deposit funds surplus to immediate requirements with the provincial treasury rather than in banks or other financial institutions.
- (b) Accrued revenue and prepaid expenses - This category, particular to business enterprises, is not normally encountered in the activities of government. No special description is needed, however, since it is self-explanatory.
- (c) Inventories - The valuation set by the enterprise is used.

10.11 The items added on the liability side are as follows:

- (a) Savings deposits - Identifies liabilities to depositors of provincial financial institutions, such as the Province of Ontario Savings Office and the Treasury Branches Deposits Fund of Alberta.
- (b) Accrued expenses and deferred credits - The counterpart of "accrued revenue and prepaid expenses" on the asset side of the balance sheet.
- (c) Minority interest - Records amounts so reported by enterprises which consolidate in their financial statement the activities of subsidiaries which they do not own in their entirety.

10.12 The statement of net worth identifies the capital stock and surplus of enterprises.

- (a) Capital stock - Identifies reported ownership, i.e. level of government or government enterprise and private investors.
- (b) Surplus - Comprises: "unappropriated surplus", "appropriated surplus" and "contributed surplus". The nature and determination of "unappropriated surplus" is described in Paragraph 10.08. "Appropriated surplus" identifies the typical reserves established by government enterprises. "Contributed surplus" distinguishes between "interest-free working capital" and "capital" contributions, the latter including both physical assets and amounts provided for their acquisition. "Contributed surplus" further identifies the contributors by level of government or government enterprise.

PART XI

GOVERNMENT EMPLOYMENT

11.00 The growth in the size of government since the end of World War II and the labour-intensive nature of most of its operations have resulted in government employees forming a significant segment of the labour force while their payrolls have become an important factor in the Canadian economy. Statistics of government employment are incorporated in all series describing employment in general and also in the Financial Management System. However, statistics produced in accordance with the latter system differ significantly from those in the more general series.

11.01 Financial Management statistics are concerned with the total number of employees of a particular government or level of government and with their corresponding gross earnings. Other systems focus on characteristics such as hours of work, average earnings (hourly and weekly), etc. In addition, most of these statistics are produced on an industrial basis in conformity with the Standard Industrial Classification System. It is most important that these differences be taken into account in any analysis which links Financial Management employment or earnings statistics with those in any of the general employment series.

11.02 For purposes of the Financial Management System, government employment and payroll data seek to report the number of employees on strength on the last day of a reference period and the gross payrolls for that period which is normally one month. These two series are presented by level of government for the general government and government enterprise universes described in Part III of this manual.

11.03 The term "employees on strength" covers all persons for whom the employing government or agency is required to complete a Revenue Canada T-4 Supplementary Form in accordance with the Income Tax Act and its regulations and who are recorded as employees on the last day of the reference period whether or not they are being paid for that day. Thus employees who are normally part of the governmental work force but are temporarily not entitled to be paid due to unpaid absence, strike or lock-out, etc. are included as employees on strength. Furthermore, the term includes not only those "public servants" who come under the requirements and protection of the federal Public Service Employment Act and its provincial, territorial and local counterparts, but also all employees of governments and their agencies who are not so classified. All elected officials and appointed members of boards etc. other than those who are unpaid or remunerated on a per diem basis are also classified as "employees on strength".

11.04 The term "gross payrolls" denotes total gross taxable payments made to employees during the reference period (before deductions for Canada and Quebec Pension Plans, income tax, unemployment insurance, etc.).

Such payments include salaries and wages, regularly paid incentive, cost-of-living and other bonuses, overtime earnings, amounts paid to persons absent with pay, directors fees paid to employees, retroactive pay settlements, advance vacation pay, termination pay and taxable allowances and benefits.

11.05 Ideally, Financial Management statistics of employment and payrolls would be presented in combinations of the following characteristics for each level of government:

- (a) employing entity, i.e., departments, special funds and enterprises;
- (b) location, i.e., sub-provincial regions and metropolitan areas;
- (c) occupation;
- (d) function and sub-function of expenditure; and
- (e) industrial group.

In practice a combination of lack of information at the sources and insufficient resources for processing available data has restricted attainment of these ideals to the federal level and even there they have yet to be fully achieved. While some characteristics are and will remain unidentifiable - e.g. employees in small municipalities who have multiple responsibilities cannot be classified in terms of a single function - there is a continuing effort to improve the quality and utility of provincial, territorial and local government employment and payroll statistics.

APPENDIX A

CLASSIFICATION FRAMEWORK - GENERAL GOVERNMENT

TABLE 1. Gross General Revenue

Own source revenue:

Income taxes	
Personal	
Corporations	
On payments to non-residents	
Property and related taxes	
Real property	
Special assessments	
Business	
Capital	
Other	
Consumption taxes	
General sales	
Motive fuel	
Alcoholic beverages	
Tobacco	
Amusements and admissions to places of entertainment	
Racetrack betting	
Air transportation	
Customs duties	
Natural gas and gas liquids	
Canadian ownership	
Other	
Health and social insurance levies	
Health insurance premiums and taxes	
Unemployment insurance contributions	
Workers' compensation contributions	
Universal pension plan levies	
Miscellaneous taxes	
Taxes on insurance premiums	
Oil export charges	
Petroleum levy	
Payroll taxes	
Other	

APPENDIX A - Continued

CLASSIFICATION FRAMEWORK - GENERAL GOVERNMENT - Continued

TABLE 1. Gross General Revenue - Continued

Natural resource revenue	
Fish and game	
Forests	
Mines	
Oil and gas	
Royalties	
Oil	
Natural gas and by-products	
Sale of rights	
Petroleum compensation charge	
Petroleum and gas revenue tax	
Other revenues	
Water power	
Other	
Privileges, licences and permits	
Liquor control and regulations	
Motor vehicles	
Concessions and franchises	
Other	
Sales of goods and services	
Intergovernment	
Manpower training	
Police	
Other	
General (specify)	
Water	
Postal receipts	
Rentals	
Other	
Return on investment	
Own enterprises	
Profits remitted	
Liquor boards	
Lotteries	
Other	
Interest	
Dividends	
Other return on investment	
Interest	
Dividends	
Profits on foreign exchange transactions	
Other	

APPENDIX A - Continued

CLASSIFICATION FRAMEWORK - GENERAL GOVERNMENT - Continued

TABLE 1. Gross General Revenue - Continued

Other revenue from own sources	
Contributions to government operated pension plans	
Bullion and coinage	
Interest and penalties on taxes	
Other fines and penalties	
Miscellaneous	
<u>Total gross general revenue from own sources</u>	
Transfers:	
General purpose transfers from other levels of government and their enterprises	
Transfers from the federal government	
(specify)	
Transfers from federal government enterprises	
Grants in lieu of property taxes	
Other	
Transfers from provincial governments	
(specify)	
Transfers from provincial government enterprises	
Grants in lieu of property taxes	
Other	
Transfers from local governments	
(specify)	
Transfers from local government enterprises	
Grants in lieu of taxes	
Other	

APPENDIX A - Continued

CLASSIFICATION FRAMEWORK - GENERAL GOVERNMENT - Continued

TABLE 1. Gross General Revenue - Concluded

Specific purpose transfers from other levels of government and their enterprises	
Transfers from the federal government	
(specify)	
Transfers from federal government enterprises	
(specify)	
Transfers from provincial governments	
(specify)	
Transfers from provincial government enterprises	
(specify)	
Transfers from local governments	
(specify)	
Transfers from local government enterprises	
(specify)	
<u>Total transfers</u>	
<u>TOTAL GROSS GENERAL REVENUE</u>	

APPENDIX A - Continued

CLASSIFICATION FRAMEWORK - GENERAL GOVERNMENT - Continued

TABLE 2. Gross General Expenditure

General services	
Executive and legislature	
Administration	
Contributions to pension plans not operated by government	
Payments under government operated pension plans	
Other	
Protection of persons and property	
National defence	
Courts of law	
Correction and rehabilitation	
Policing	
Firefighting	
Regulatory measures	
Other	
Transportation and communications	
Air	
Road	
Public transit	
Rail	
Water	
Telecommunications	
Postal services	
Other	
Health	
Hospital care	
Medical care	
Preventive care	
Other	
Social services	
Social security	
Contributory plans	
Canada Pension Plan	
Quebec Pension Plan	
Non-contributory plans - Old age security	

APPENDIX A - Continued

CLASSIFICATION FRAMEWORK - GENERAL GOVERNMENT - Continued

TABLE 2. Gross General Expenditure - Continued

Labour force plans.....	
Unemployment insurance.....	
Workers' compensation	
Family allowances	
Veterans benefits	
Motor vehicle accident compensation	
Social welfare	
Social welfare assistance	
Social welfare services	
Ex-gratia pensions and allowances.....	
Other social welfare	
Tax credits and rebates	
Other social services	
Education	
Elementary and secondary	
Postsecondary	
Special retraining services	
Other	
Resource conservation and industrial development	
Agriculture	
Fish and game	
Forests	
Mines	
Oil and gas	
Tourism	
Trade and industry	
Water	
Other	
Environment	
Water purification and supply	
Sewage collection and disposal	
Garbage and waste collection and disposal	
Pollution control	
Other	

APPENDIX A - Continued

CLASSIFICATION FRAMEWORK - GENERAL GOVERNMENT - Continued

TABLE 2. Gross General Expenditure - Continued

Recreation and culture	
Recreation	
Culture	
Other	
Labour, employment and immigration	
Labour and employment	
Immigration	
Other	
Housing	
Housing operations	
Construction	
Rentals	
Other operations	
Housing assistance	
Construction assistance	
Rental assistance	
Home buyers assistance	
Other assistance	
Foreign affairs and international assistance	
Regional planning and development	
Planning and zoning	
Community development	
Regional development	
Other	
Research establishments	
General purpose transfers to other levels of government	
(specify)	
Transfers to own enterprises	

APPENDIX A - Continued

CLASSIFICATION FRAMEWORK - GENERAL GOVERNMENT - Continued

TABLE 2. Gross General Expenditure - Concluded

Debt charges	
Interest	
Other	
Other	
<u>TOTAL GROSS GENERAL EXPENDITURE</u>	

APPENDIX A - Continued

CLASSIFICATION FRAMEWORK - GENERAL GOVERNMENT - Continued

TABLE 3. Financial Assets

Cash on hand and on deposit	
Canadian currency	
Cash on hand	
Cash in chartered banks	
Cash in government financial institutions	
Cash in other financial institutions	
Foreign currency	
Receivables	
Taxes	
Interest	
Trade accounts	
Governments	
Federal government	
Provincial governments	
Local governments	
Government enterprises	
Federal enterprises	
Provincial enterprises	
Local enterprises	
Other	
Advances	
To:	
Governments	
Federal government	
Provincial governments	
Local governments	
Government enterprises	
Federal enterprises	
Provincial enterprises	
Local enterprises	
Individuals	
Private enterprises	
Private hospitals	
Universities	
Others	

APPENDIX A - Continued

CLASSIFICATION FRAMEWORK - GENERAL GOVERNMENT - Continued

TABLE 3. Financial Assets - Continued

Securities	
Treasury bills	
Federal government	
Provincial governments	
Local governments	
Bonds and debentures	
Governments	
Federal government	
Provincial governments	
Local governments	
Government enterprises	
Federal enterprises	
Provincial enterprises	
Local enterprises	
Non-government	
Private enterprises	
Private Hospitals	
Universities	
Others	
Shares	
Government enterprises	
Federal enterprises	
Provincial enterprises	
Local enterprises	
Private enterprises	
Mortgages and agreements for sale	
National Housing Act mortgages	
Other	
Foreign securities	
Other securities	
Governments	
Federal government	
Provincial governments	
Local governments	

APPENDIX A - Continued

CLASSIFICATION FRAMEWORK - GENERAL GOVERNMENT - Continued

TABLE 3. Financial Assets - Concluded

Government enterprises	
Federal enterprises	
Provincial enterprises	
Local enterprises	
Private enterprises	
Others	
Other financial assets	
Governments	
Government enterprises	
Others	
<u>TOTAL FINANCIAL ASSETS</u>	

APPENDIX A - Continued

CLASSIFICATION FRAMEWORK - GENERAL GOVERNMENT - Continued

TABLE 4. Liabilities

Bank overdrafts	
Payables	
Matured securities outstanding	
Interest	
Trade accounts	
Governments	
Federal government	
Provincial governments	
Local governments	
Government enterprises	
Federal enterprises	
Provincial enterprises	
Local enterprises	
Other	
Private hospitals	
Universities	
Others	
Bank notes in circulation	
Advances	
From:	
Governments	
Federal government	
Provincial governments	
Local governments	
Government enterprises	
Federal enterprises	
Provincial enterprises	
Local enterprises	
Chartered banks	
Other financial institutions	
Others	
Treasury bills	
Savings bonds	

APPENDIX A - Continued

CLASSIFICATION FRAMEWORK - GENERAL GOVERNMENT - Continued

TABLE 4. Liabilities - Continued

Bonds and debentures	
Issued to:	
Governments	
Federal government	
Canada Pension Plan Investment Fund	
Provincial governments	
Local governments	
Government enterprises	
Federal enterprises	
Provincial enterprises	
Local enterprises	
Government-employee trustee pension plans	
General public	
Payable in:	
Canadian currency	
U.S. currency	
Foreign currencies other than U.S.	
Other securities	
Issued to:	
Governments	
Federal government	
Provincial governments	
Local governments	
Others	
Deposits	
Due to:	
Governments	
Federal government	
Provincial governments	
Local governments	
Government enterprises	
Federal enterprises	
Provincial enterprises	
Local enterprises	
Others	

APPENDIX A - Continued

CLASSIFICATION FRAMEWORK - GENERAL GOVERNMENT - Concluded

TABLE 4. Liabilities - Concluded

Other liabilities	
Due to:	
Governments	
Federal government	
Provincial governments	
Local governments	
Government enterprises	
Federal enterprises	
Provincial enterprises	
Local enterprises	
Others	
<u>TOTAL LIABILITIES</u>	
Excess of financial assets over liabilities or (excess of liabilities over financial assets)	

APPENDIX A - Continued

CLASSIFICATION FRAMEWORK - GENERAL GOVERNMENT - Continued

TABLE 5. Source and Application of Funds for Fiscal Year Ended March 31, 19__

	Source	Application
Financial management surplus or deficit for the period		
Changes in the classification of government entities		
Changes in accounting policies and practices		
Changes in borrowings		
Advances		
From:		
Federal government		
Federal government enterprises		
Provincial governments		
Provincial government enterprises		
Others		
Treasury bills		
Savings bonds		
Bonds and debentures		
Issued to:		
Canada Pension Plan Investment Fund		
Provincial governments		
Provincial government enterprises		
Foreign entities		
Others		
Others securities		
Issued to:		
Foreign entities		
Others		
Changes in advances		
To:		
Federal government enterprises		
Provincial governments		
Provincial government enterprises		
Local governments		
Local government enterprises		
Others		

APPENDIX A - Concluded

CLASSIFICATION FRAMEWORK - GENERAL GOVERNMENT - Concluded

TABLE 5. Source and Application of Funds for Fiscal Year Ended March 31, 19__
- Concluded

	Source	Application
Changes in security holdings		
Federal government		
Federal government enterprises		
Provincial governments		
Provincial government enterprises		
Local governments		
Foreign entities		
Others		
Changes in other assets and liabilities		
Cash on hand and on deposit		
Receivables		
Other financial assets		
Bank overdrafts		
Payables		
Bank notes in circulation		
Deposits due and other liabilities		
Discrepancy		
<u>TOTAL</u>		

APPENDIX B

CLASSIFICATION FRAMEWORK - GOVERNMENT ENTERPRISES

TABLE 6. Income and Expense

INCOME

Sales of goods and services	
Investment income	
Interest	
From:	
Governments	
Federal government	
Provincial governments	
Local governments	
Government enterprises	
Federal enterprises	
Provincial enterprises	
Local enterprises	
Others	
Rentals	
Other investment income	
Subsidies	
From:	
Governments	
Federal government	
Provincial governments	
Local governments	
Other income	
TOTAL INCOME	

APPENDIX B - Continued

CLASSIFICATION FRAMEWORK - GOVERNMENT ENTERPRISES - Continued

TABLE 6. Income and Expense - Concluded

EXPENSE

Salaries and wages	
Materials and other purchases	
Debt charges	
Interest	
To:	
Governments	
Federal government	
Provincial governments	
Local governments	
Government enterprises	
Federal enterprises	
Provincial enterprises	
Local enterprises	
Others	
Other	
Grants in lieu of taxes	
Provision for depreciation and depletion	
Other expenses	
TOTAL EXPENSES	
<u>NET INCOME (LOSS)</u>	
Net income (loss) before provision for income tax	
Provision for income tax	
Net income (loss) after provision for income tax	

APPENDIX B - Continued

CLASSIFICATION FRAMEWORK - GOVERNMENT ENTERPRISES - Continued

TABLE 7. Statement of Unappropriated Surplus

Balance at the beginning of the year	
<u>Additions</u>	
Net income (loss) for the year after provision for income tax	
Net profit (loss) on sale or disposal of fixed assets	
Recoveries of losses	
From:	
Governments	
Federal government	
Provincial governments	
Local governments	
Government enterprises	
Federal enterprises	
Provincial enterprises	
Local enterprises	
Others	
Transfers from appropriated surplus	
Other adjustments	
<u>Deductions</u>	
Profits remitted (including dividends paid)	
To:	
Governments	
Federal government	
Provincial governments	
Local governments	
Government enterprises	
Federal enterprises	
Provincial enterprises	
Local enterprises	
Others	
Transfers to appropriated surplus	
Other adjustments	
Balance at the end of the year	

APPENDIX B - Continued

CLASSIFICATION FRAMEWORK - GOVERNMENT ENTERPRISES - Continued

TABLE 8. Assets, Liabilities and Net Worth

ASSETS

Cash on hand and on deposits	
Canadian currency	
Cash on hand	
Cash in chartered banks	
Cash with provincial governments	
Cash in other financial institutions	
Foreign currency	
Receivables	
Interest	
Trade accounts (less allowances for doubtful accounts)	
Governments	
Federal government	
Provincial governments	
Local governments	
Government enterprises	
Federal enterprises	
Provincial enterprises	
Local enterprises	
Other	
Accrued revenue and prepaid expenses	
Inventories	
Advances	
To:	
Governments	
Federal government	
Provincial governments	
Local governments	
Government enterprises	
Federal enterprises	
Provincial enterprises	
Local enterprises	
Private enterprises	
Others	

APPENDIX B - Continued

CLASSIFICATION FRAMEWORK - GOVERNMENT ENTERPRISES - Continued

TABLE 8. Assets, Liabilities and Net Worth - Continued

ASSETS - Continued

Securities	
Treasury bills	
Federal government	
Provincial governments	
Bonds and debentures	
Governments	
Federal government	
Provincial governments	
Local governments	
Government enterprises	
Federal enterprises	
Provincial enterprises	
Local enterprises	
Private enterprises	
Corporations	
Others	
Shares	
Government enterprises	
Federal enterprises	
Provincial enterprises	
Local enterprises	
Private enterprises	
Mortgages and agreements for sale	
National Housing Act mortgages	
Other	
Foreign Securities	
Other Securities	
Governments	
Federal government	
Provincial governments	
Local governments	

APPENDIX B - Continued

CLASSIFICATION FRAMEWORK - GOVERNMENT ENTERPRISES - Continued

TABLE 8. Assets, Liabilities and Net Worth - Continued

ASSETS - Concluded

Government enterprises	
Federal enterprises	
Provincial enterprises	
Local enterprises	
Private enterprises	
Others	
Other financial assets	
Governments	
Government enterprises	
Others	
Fixed assets	
less: Accumulated depreciation and depletion	
Deferred charges	
Unamortized bond discount	
Other deferred charges	
Other assets	
TOTAL ASSETS	

APPENDIX B - Continued

CLASSIFICATION FRAMEWORK - GOVERNMENT ENTERPRISES - Continued

TABLE 8. Assets, Liabilities and Net Worth - Continued

LIABILITIES

Bank overdrafts	
Savings deposits	
Payables	
Matured securities outstanding	
Interest	
Trade Accounts	
Governments	
Federal government	
Provincial government	
Local government	
Government enterprises	
Federal enterprises	
Provincial enterprises	
Local enterprises	
Other	
Accrued expenditure and deferred credits	
Advances	
From:	
Governments	
Federal government	
Provincial governments	
Local governments	
Government enterprises	
Federal enterprises	
Provincial enterprises	
Local enterprises	
Chartered banks	
Others	

APPENDIX B - Continued

CLASSIFICATION FRAMEWORK - GOVERNMENT ENTERPRISES - Continued

TABLE 8. Assets, Liabilities and Net Worth - Continued

LIABILITIES - Continued

Bonds and debentures	
Issued to:	
Governments	
Federal government	
Canada Pension Plan Investment Fund	
Provincial governments	
Local governments	
Government enterprises	
Federal enterprises	
Provincial enterprises	
Local enterprises	
Government-employee trustee pension plans	
General public	
Payable in:	
Canadian currency	
U.S. currency	
Foreign currencies other than U.S.	
Other securities	
Issued to:	
Governments	
Federal government	
Provincial governments	
Local governments	
Others	
Deposits	
Due to:	
Governments	
Federal government	
Provincial governments	
Local governments	
Government enterprises	
Federal enterprises	
Provincial enterprises	
Local enterprises	
Others	
Minority interests	

APPENDIX B - Continued

CLASSIFICATION FRAMEWORK - GOVERNMENT ENTERPRISES - Continued

TABLE 8. Assets, Liabilities and Net Worth - Continued

LIABILITIES - Concluded

Other liabilities	
Contractors' holdbacks	
Income tax	
Miscellaneous	
TOTAL LIABILITIES	

NET WORTH

Capital stock	
Held by:	
Governments	
Federal government	
Provincial governments	
Local governments	
Government enterprises	
Federal enterprises	
Provincial enterprises	
Local enterprises	
Others	

Surplus

Unappropriated surplus	
Appropriated surplus	
Contingencies including rate stabilization	
Acquisition of capital assets	
Insurance	
Debt retirement appropriation	
Sinking funds	
Other	
Contributed surplus	
Interest-free working capital	
Provided by:	
Governments	
Federal government	
Provincial governments	
Local governments	

APPENDIX B - Concluded

CLASSIFICATION FRAMEWORK - GOVERNMENT ENTERPRISES - Concluded

TABLE 8. Assets, Liabilities and Net Worth - Concluded

NET WORTH - Concluded

Government enterprises	
Federal enterprises	
Provincial enterprises	
Local enterprises	
Capital contributions	
From:	
Governments	
Federal government	
Provincial governments	
Local governments	
Government enterprises	
Federal enterprises	
Provincial enterprises	
Local enterprises	
TOTAL NET WORTH	
TOTAL LIABILITIES AND NET WORTH	

APPENDIX C

CLASSIFICATION FRAMEWORK - GENERAL GOVERNMENT

TABLE 9. Classification of Financial Management Statistics in Economic Terms

Gross General Revenue

Revenue Source	Financial manage- ment revenue	Revenue derived from:				
		Persons and business			Other levels of government	Non-residents
		Persons	Business	Unspecified		

APPENDIX C - Concluded

CLASSIFICATION FRAMEWORK - GENERAL GOVERNMENT

TABLE 10. Classification of Financial Management Statistics in Economic Terms

Gross General Expenditure

Functions of expenditure	Financial manage- ment ex- penditure	Purchases of goods and services		Transfers to:			
		Salaries and wages	Other	Persons	Business	Other levels of government	Non- residents

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The system of government financial management statistics

Supplement

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The System of Government Financial Management Statistics

Supplement

Subsequent to publication of "The System of Government Financial Management Statistics" in March 1984 we have evidenced a growing demand for an overview of the major milestones in the development of government financial management statistics as well as a glossary which would provide a quick and easy reference of terminology contained within the manual.

This resulted in the development of the following supplement to the manual which contains a revised table of contents along with the Chronology (Appendix D) and Glossary (Appendix E) which should be inserted at the end of the current manual after page 158.

The contribution of Mr. A.G. Kerr is gratefully acknowledged in the development of this supplement and it is hoped that it will provide a source of information for the users which will enable them to have easier access to the material contained within the current manual.

	<u>Page</u>
Deposits	99
Other liabilities	100
Excess of financial assets over liabilities or (excess of liabilities over financial assets)	100
Source and Application of Funds	101
Financial management surplus of deficit for the period ...	102
Changes in the classification of entities	103
Changes in accounting policies and practices	103
Changes in borrowing	103
Changes in advances and in security holdings	103
Changes in other assets and liabilities	103
Discrepancy	104
VIII Classification of Financial Management Statistics in Economic Terms	
Introduction	105
Financial Management Economic Classifications	
Revenue	110
Expenditure	110
Functional Classification of National Accounts	
Expenditure	111
Note on conceptual differences between the Financial Management System and the System of National Accounts	112
IX Consolidated Government Finance	115
X Government Enterprises	
Introduction	120
Income	123
Expenses	124
Unappropriated Surplus	125
Assets, Liabilities and Net Worth	126
XI Government Employment	128

APPENDICES

A.	General Government	131
	<u>Table</u>	
	1. Gross General Revenue	131
	2. Gross General Expenditure	135
	3. Financial Assets	139
	4. Liabilities	142
	5. Source and Application of Funds	145
B.	Government Enterprises	147
	<u>Table</u>	
	6. Income and Expense	147
	7. Statement of Unappropriated Surplus	149
	8. Assets, Liabilities and Net Worth	150
C.	Classification of Financial Management Statistics in Economic Terms	157
	9. Gross General Revenue	157
	10. Gross General Expenditure	158
D.	Chronology of the Development of the Financial Management System	159
E.	Glossary	170

Appendix D

Chronology of the Development of the Financial Management System

- 1918 The Dominion Bureau of Statistics sends a memorandum to the Provinces outlining a uniform system of municipal accounting and reporting.
- 1921 DBS commences publication of municipal finance statistics, (1919 onwards) in accord with the classifications and concepts of the 1918 memo.
- 1923 DBS commences publication of provincial finance statistics (1921 onwards) on the same basis.
- 1933 First Dominion-Provincial Conference on Provincial Finance Statistics approves basic concepts proposed by DBS - revenue by source and expenditure by function.
- 1937 First Dominion-Provincial Conference on Municipal Finance Statistics approves standard reporting formats for revenues, expenditures and balance sheets and requests development of "Manual of Instructions".
- 1937-40 The Royal Commission on Dominion-Provincial Relations (the Rowell-Sirois Commission) uses DBS concepts and classifications in its statistical compilations and incorporates the 1938 and 1939 provincial finance publications as Appendix 1 to its report.

- 1940 (May) Second Conference on Municipal Finance Statistics reviews draft of "Manual of Instructions".
- 1940 (December) Third Conference on Municipal Finance Statistics approves publication by DBS of "Manual of Instructions".
- 1941 The Dominion Provincial Conference - a follow-up to Rowell-Sirois - also uses DBS concepts and classifications in its statistics.
- 1942 DBS publishes "Manual of Instructions - Financial Statements, Accounting Terminology, Population, Area and Assessment Schedules for Municipal Corporations" in two volumes.
- 1943 Second Conference on Provincial Statistics recommends complete co-ordination of the statistics of Canadian Public Finance as a whole, reporting on a "Gross" basis, the development of provincial employment and payroll statistics by DBS and the publication by the latter of reconciliations between its statistics and provincial public accounts.
- 1945 Third Conference on Provincial Finance Statistics approves revised Provincial reporting schedules and directs DBS to prepare a Manual of Instructions for them.
- 1945 Dominion-Provincial Conference on Reconstruction uses DBS statistics on government finance for planning purposes.

- 1947 Fourth Conference on Municipal Finance Statistics is concerned mainly with assessment and with the definition and valuation of fixed assets.
- 1947 Fourth Conference on Provincial Finance Statistics endorses the principle of uniformity in accounting for all levels of government and sets up a sub-committee to review the form and content of provincial public accounts. It reaffirms the principle enunciated by the Third (1945) Conference to the effect that provinces provide data to DBS in forms which do not require special compilations and in time to permit publication by DBS within seven months of the end of the reference year.
- 1948 Letter to all Provincial Treasurers from the Minister of Trade and Commerce together with memo from DBS reiterates conclusions of Fourth Conference.
- 1948 Fifth Conference on Municipal Finance Statistics requests DBS to produce a revised version of the "Manual of Instructions".
- 1950 DBS publishes a one volume second edition of the "Manual of Instructions" for municipalities.
- 1952 Fifth Conference on Provincial Finance Statistics urges the Provinces to greater uniformity in their public accounts and makes specific recommendations with regard to balance sheets

and related financial statements. Subsequently, DBS issues a Reference Book summarizing the recommendations of the five Conferences.

1953 Sixth Conference on Provincial Finance Statistics re-emphasizes the desirability of implementing recommendations on the form and content of provincial public accounts. The Conference establishes a Continuing Committee to examine the problem of uniform content of public accounts and any other pertinent matters and to make recommendations for their treatment to the Conference.

1953 Sixth Conference on Municipal Finance Statistics recommends the development by DBS of an object classification as a basis for detailing departmental and functional expenditures. The question of the valuation of fixed assets is to be referred to the C.I.C.A. Committee on Governmental Accounting. It is further recommended that this Committee be expanded to include provincial representatives to encourage provincial Institutes of Chartered Accountants to support the implementation of the recommendations of the Conferences on Municipal Statistics. Finally the Conference recommends a review by DBS and the provinces of the Proposed Standard Reporting Format for Statistics of Municipal Finance.

- 1954-60 The Continuing Committee of the Sixth Conference on Provincial Finance Statistics meets five times. Among its recommendations are the development by DBS of government enterprise financial statistics. The Committee also recognizes that the development of uniform standards of presentation and content for provincial Public Accounts is not feasible because of variations in accounting systems between governments and statutory and other requirements for information.
- 1958 Seventh Conference on Municipal Finance Statistics recommends the establishment of a Continuing Committee. It requests that drafts of the revised Manual be provided to the provinces for review and comment and that the Proposed Reporting Format be similarly distributed. It also recommends that other local governments, such as school boards, be requested to use reporting formats compatible with those of municipalities.
- 1960 DBS issues an updated version of the 1952 Provincial Conference Reference Book. (Note. This is reproduced in Cat. 68-504, A Review of Dominion-Provincial Conferences on Provincial Finance Statistics, 1966.)
- 1960 DBS publishes the "Municipal Finance Reporting Manual" to replace the earlier "Manuals of Instructions".

1964-67

The Tax Structure Committee examines ways and means of determining acceptable terms for federal-provincial tax sharing agreements. The Committee comprises representatives of the federal and provincial departments of finance and of DBS. The Committee revises DBS statistics for all three levels of government (individually and consolidated) for the period 1952-62 and, on this basis, projects revenues and expenditures to 1971. The revised data are published in Cat. 68-503 "Historical Review-Financial Statistics of Governments in Canada, 1952-62" by DBS in 1966. This publication, which introduces the term "Financial Management System" to describe the DBS system, includes descriptions of the conceptual framework, classifications and sources of FMS together with a terminology, the latter being based on that included in the Municipal Finance Reporting Manual. This Committee develops into the Financial Data Sub-Committee of the Continuing Committee of Officials on Fiscal and Economic Matters. The Sub-Committee meets semi-annually to produce financial statistics and projections for the federal and provincial governments for the use of the Continuing Committee and the Ministers of Finance. It uses FMS data for its work.

1966

Queen's Conference. Essentially a meeting at Queen's University of users and suppliers of municipal finance statistics, the Conference recommends the establishment of an advisory committee on municipal statistics. The Conference also calls for a Federal-Provincial Conference to revise the

municipal manual and for a meeting similar to this one to examine the present program of federal and provincial statistics.

1967-70

The Eighth Federal-Provincial Conference on Municipal Finance Statistics holds seven sessions to develop a new municipal manual. This is published in 1970 in three volumes entitled "A Financial Information System for Municipalities" (Cats. 12-532, -533 and -534). As distinct from previous manuals, this publication sets out the information requirements of users of municipal finance statistics. It describes how these can be met by the Financial Management System and proposes an accounting framework in accordance with FMS classifications.

1967

DBS commences the supply of revenue source data to the federal Department of Finance in conformity with the Federal-Provincial Fiscal Arrangements Act and Regulations. The data, which have been expanded considerably in scope and detail by the successive quinquennial Acts, are produced in FMS terms.

1970

A Conference of Users of Public Finance Statistics reviews the existing program of DBS and makes a number of recommendations for its improvement and expansion. Chief among these are the updating of FMS and a full description of its concepts and classifications.

- 1971 Participants in the Eighth Conference on Municipal Statistics reconvene in the first of a series of annual meetings of what is eventually entitled the Intergovernmental Conference on Local Government Information Development. The Conference concentrates on the applications of FMS at the local government level and on various aspects of municipal accounting.
- 1972 DBS publishes "The Canadian System of Government Financial Management Statistics" (Cat. 68-506). This publication describes the changes introduced into the System to respond to the changes in government and its activities in the previous decade. In addition to the expansion of the classifications of general government revenue, expenditure, assets and liabilities the manual also describes the application of the System to the activities of government enterprises. The concepts remain basically unchanged but the previous emphasis on "net general" statistics, which portray the acquisition of a government's revenues from its own sources and the resulting direct expenditures, has been dropped in favour of the "gross general" concept which embraces all revenues and expenditures. This change in emphasis responds to the growth in intergovernmental transactions and the decline in restrictions placed on the use of the funds involved.
- 1974-76 The Tri-Level Task Force on Public Finance uses FMS data as the basis of its analysis of the financial activities and positions of all three levels of government.

- 1979-81 The Established Programs Financing Data Sub-Committee composed of representatives of the provinces and the federal Ministry of State for Social Development uses FMS data for its work.
- 1980 Public Finance Division circulates a first draft of a revised edition of the FM Manual.
- 1981 The Consultative Council on Statistics approves the establishment of a Federal-Provincial Committee on Government Statistics.
- 1982 First meeting of the Government Statistics Committee. Among other matters it questions the scope of FMS, especially its requirement that only government owned entities be included in its universes.
- 1982 The Parliamentary Task Force on Federal-Provincial Relations (Breau Committee) uses FMS data.
- 1983 The annual meeting of the Government Statistics Committee is cancelled as part of the restraint program. Public Finance Division circulates a paper proposing a Public Sector approach to cover all entities discharging public functions. Response from Committee members is generally favourable.

- 1983 Public Finance Division circulates a second draft of the revised edition of the FM Manual.
- 1983 The Royal Commission on the Economic Union and Canada's Economic Prospects (MacDonald Commission) incorporates FMS data in its studies.
- 1984 The second meeting of the Government Statistics Committee gives formal approval to the revised FM Manual. It also approves the development of a Public Sector Financial Statistics System.
- 1984 Statistics Canada publishes "The System of Government Financial Management Statistics" (Cat. 68-507). This new edition of the FM Manual places greater emphasis on the concepts underlying the System. The definition of a government enterprise is tightened up with the result that all housing authorities are now classified as special funds rather than enterprises. New revenue classifications are added, together with additional sub-functions of expenditure.

Appendix E

Glossary of Basic Terminology

Note. References following each item are paragraph numbers in the main text.

A

Accounting Conventions with Respect to Public Accounting

- (a) Accrual accounting requires revenues and expenditures to be reflected in the accounts in the period in which they are deemed to have been earned and incurred whether or not the related cash receipts and disbursements occur in the same period. Most government enterprises and the larger special funds use this convention. (4.06)
- (b) Cash accounting requires revenues and expenditures to be reflected in the accounts only when the related cash receipts and disbursements occur. This convention is not used by governments. (4.06)
- (c) Fund accounting provides for a self-balancing group of accounts for each accounting entity within a government. It is in general use among local governments.
- (d) Modified cash accounting uses the cash accounting convention during an accounting period but accrues certain items at the end of the period e.g. trade accounts, transfers and, in some cases, taxes. It is used principally by the federal, provincial and territorial governments but there is no uniformity on the items subject to accrual. (4.06)

Accounts payable - see Payables

Accounts receivable - see Receivables

Advance

- (a) An amount made available temporarily to a recipient who must return it at a later date or account for its use. (7.05/7.11)
- (b) A partial payment on account made prior to the completion of a transaction.

Agency is an entity created by a single government, or by a number of governments acting jointly, to carry out certain assigned tasks. In the Financial Management System Agencies are classified either as Enterprises (q.v.) or as Special Funds (q.v.). (3.01)

Aims of Accounting

- (a) Government accounting aims primarily at reporting on stewardship i.e. what monies were acquired by government, who was responsible for spending them and where all expenditures properly authorized.
- (b) Business accounting aims at demonstrating the present and future viability of the business. (10.02)

Appropriated surplus - See "Surplus".

Appropriation

- (a) An amount set aside (as a reserve) for a specific purpose. (7.01(c))
- (b) One of a number of planned expenditures which together make up the budget of a government.

Asset. Something owned or the right to a future benefit, both expressed in terms of money. (7.00)

B

Balance Sheet

- (a) A concise financial statement of assets, liabilities and equity at a particular point in time.
- (b) In the Financial Management System the Statement of Financial Assets and Liabilities is deemed to be the equivalent of the Balance Sheet. (7:00)

Basis of Accounting

(a) Government F.M. Statistics are produced in accordance with the conventions of Modified Cash Accounting. Source data using other conventions are only adjusted where essential. (4.06/7.00)

(b) Enterprise F.M. Statistics conform with the conventions of Accrual Accounting. (10.04)

Bond. A certificate of indebtedness issued by a government or an enterprise usually with the implication that it is secured by assets. (7.06/7.13/7.14)

Budget. A document which plans and controls future activities by estimating the amounts involved in the related transactions.

Business sector. One of the four sectors of the National Economy (q.v.) in the System of National Accounts, this comprises all profit-oriented entities including government enterprises. (8.03)

Business taxes. A revenue sub-source which includes taxes levied on business in lieu of, or supplementary to, real property taxes, but excludes taxes on income or profits. (6.04)

C

Capital Expenditure. An expenditure to acquire, or add to, an asset intended for long-term use. In FMS such expenditures are not differentiated from current expenditures. (5.12)

Capital taxes. A revenue sub-source identifying levies by provinces on the paid-up capital of corporations operating within their boundaries. They are classified to "Property and related taxes". (6.04)

Cash

- (a) Coin, banknotes, money orders, cheques and the like held by an entity collectively known as cash on hand;
- (b) Balances of accounts in banks or other financial institutions which are available on demand. (7.03)

Classification

- (a) A component of the FMS framework, i.e. a revenue source, an expenditure function, an asset or liability category, or sub-component thereof.
- (b) The act of assigning a transaction or account to its appropriate classification.

Collections for other governments identify arrangements whereby one government acts as an agent of another in collecting certain revenues on the latter's behalf. Examples are the federal-provincial tax collection agreements and the collection of real property taxes by certain provinces for their municipalities. Such collections are included only in the revenue statistics of the government for whom the collection is made. (5.26/5.32)

Commissions paid to agents for collecting taxes are deemed to be expenditures on tax collection. In cases where these have been netted, equivalent amounts are added to gross general revenue and gross general expenditure. (5.10)

Communications. See "Transportation and Communications".

Consolidation. The combination of financial statistics for two or more entities in such a way as to eliminate inter-entity transactions thus producing a set of financial statistics as if for a single entity. Examples in FMS are the consolidation of a provincial government and its special funds, of all local governments and their special funds in a province, of consolidated provincial and local government data and of consolidated government data for all levels of government. In addition data for an enterprise and its subsidiaries are normally consolidated unless the parent and subsidiaries are assigned to different industrial classifications. (Part IX)

Consumption taxes. This revenue source groups taxes where the acquisition or consumption of a good or service creates the tax liability e.g. general sales taxes. (6.01/6.05)

Contributed surplus. See "Surplus".

Corporate Undistributed Income on Hand in 1971 is taxed by the federal government and classified as corporation income tax revenue. Portions transferred to provinces where the income is deemed to have been earned are classified as general purpose transfers. (5.29)

Corporation income taxes. A revenue sub-source which includes all general and specific federal and provincial taxes on profits of corporations except specific taxes on the profits of natural resource based industries which are classified to "Natural resource revenue". (6.03)

Cross-classification consists of the simultaneous display of financial statistics in conformity with two classification systems e.g. financial management expenditures disaggregated into economic objects. (8.02)

Culture. (Function) See "Recreation and culture".

Current Expenditure. Usually, expenditures whose benefits are not expected to continue beyond the end of the accounting period (normally a year) in which it is made. (6.19)

D

Debenture. A certificate of indebtedness issued by a government or an enterprise normally without any specific security. (7.06/7.13/7.14)

Debt charges. This function includes all expenditures relating to the servicing of debt, including interest, expenditures related to foreign exchange transactions, amortization of premiums or discounts, but excluding administrative costs (included in "General services" (q.v.)) and retirement of principal which is a balance sheet transaction. (6.36)

Depreciation. The reduction in the ability to produce services of a fixed asset over its life which cannot be offset by maintenance. In FMS depreciation is only accounted for in government enterprise statistics. (16.06)

E

Education. A function which identifies expenditures on developing, improving and operating educational systems and on providing specific educational services. (6.25)

Employee on strength. Any person for whom the employing government or agency is required to complete a Revenue Canada T-4 Supplementary Form and who is recorded as an employee on the last day of a reference period whether or not he/she is paid for that day. (11.03)

Employment. (Function) See "Labour, employment and immigration".

Employment statistics in the Financial Management System identify the number of employees on the strength of a government or agency at the end of a reference period and the gross payrolls for that period. (11.01/11.02)

Environment. A function which groups together expenditures aimed at ensuring the most favourable environment for people including the costs of minimizing any deleterious effects of modern living on it. (6.27)

Estate tax. A revenue sub-source identifying the tax on inheritances formerly levied by the federal and provincial governments but now only by some of the latter. (5.27)

Expenditure (Financial Management System) includes all costs incurred by government to discharge its functions except loans and their repayment. It includes total remuneration of employees, all other current and capital outlays for goods and services and all transfer payments to individuals, businesses, other governments and to the rest of the world. (5.03/6.19)

Expenditure (Financial Management Economic Classifications) identifies the economic sector from which goods and services are purchased or to which transfers are made. (8.07)

Expenses are the costs incurred by government enterprises. (10.06)

F

Financial Management System. A statistical system designed to encompass the financial transactions of governments in terms of their expenditures to provide services, the revenues raised to cover these expenditures and the disposal of any imbalances between income and outlay. (3.00)

Fixed asset. A tangible asset, e.g. land, buildings, machinery, etc. whose useful life is expected to extend over several accounting periods. (7.00)

Foreign affairs and international assistance. A function which identifies expenditures on formal relations of Canada with other countries together with contributions made to foster development and improve social conditions in other countries. (6.31)

Function. A classification of government expenditure which identifies the purpose of, or service provided by, the expenditure. (6.19)

Functionalization. Cross-classification (q.v.) of expenditures of the government sector in the System of National Accounts in terms of functions of the Financial Management System. (8.08)

Fund. A self-balancing set of accounts established to segregate all financial transactions relating to monies received for a specific purpose. Among governments accounting by funds is generally restricted to the local level.

G

General purpose transfer. A transfer (q.v.) from a government with no restrictions placed on the recipient's use of the monies transferred. Such transfers are identified as revenue sources of the recipient and expenditure functions of the transferor. (6.00/6.17/6.34)

General sales. A revenue sub-source which identifies sales made to other than government. (6.10)

General services. This function identifies expenditures on the executive and legislature of a government and on its centralized operations. (6.20)

Government consists of the federal, provincial, territorial and municipal governments, local school authorities and special purpose bodies and all agencies (q.v.) of the foregoing. (3.00) In the Financial Management System, government is divided into:-

- (a) General government consisting of the departmental core and attached special funds (q.v.) (3.03 to 3.05); and
- (b) Government enterprises which are separate entities owned by government which sell goods and/or services primarily on the open market and derive their principal revenues from these sales and/or other of their own sources. (3.08 to 3.13)

Governments sector. This sector of the National Economy (q.v.) is the counterpart in the System of National Accounts of General government. It also includes all hospitals, whether or not owned by government, but excludes the Bank of Canada and Canada Post Corporation. (8.03)

Grants in lieu of property taxes are transfers from a government or enterprise to another government partially or wholly equivalent to the real property tax for which the transferor would be liable were it not an agency of the Crown. (5.33)

Gross convention. This FM convention requires that all transactions included in the System be reported on a gross basis. (5.02/7.01)

Gross general revenue and expenditure. The gross revenue and gross expenditure of general government. (5.03)

Gross payrolls are total gross taxable payments made to employees.

H

Health. This function identifies expenditures made to prevent ill health (e.g. through public health services) and to treat ill health through medical and hospital care. (6.23)

Health and social insurance levies. A revenue source which identifies premiums, levies and contributions used in the financing of health and social insurance schemes. (6.06)

Housing. This function identifies expenditures made to construct and operate public housing, to assist others to carry out similar activities or to secure housing. (6.30)

I

Immigration. See "Labour, employment and immigration".

Income. The revenue of government enterprises. (10.05)

Income taxes. A revenue source which includes levies on the incomes of individuals and unincorporated businesses, on the taxable profits of corporations, on certain payments to non-residents and special taxes of a similar nature. (6.03)

Industrial development. See "Resource conservation and industrial development".

Interest. The price paid for the use of money. In FMS interest received by a lender is classified as "Return on investment" (6.11) and interest paid by a borrower as "Debt charges" (6.36).

Intergovernmental fiscal arrangements cover the various schemes under which governments act as each others agents in collecting taxes, share revenues and accept the equivalent of tax liabilities to each other. (5.26 to 5.34)

Intergovernment purchase - sale transactions occur when one government purchases goods or services from a second government for resale or distribution to the first government's population or within its territory. (5.24)

Intergovernment sales. A revenue sub-source which identifies the proceeds of sales made by one government to another.

International assistance. See "Foreign affairs and international assistance".

Investment. In addition to any kind of property acquired in expectation of the revenue it will generate, FMS also classifies loans as (temporary) investments. See also "Return on investments" (6.11)

L

Labour, employment and immigration. A function which covers outlays on the operation of employment services, on the promotion of labour relations and fair employment conditions and on various immigration programs. (6.29)

Levy. FMS restricts this term to premiums, taxes, contributions, etc. imposed to finance health and social services in whole or in part. (6.06)

Liability. A debt owed. FMS follows convention in classifying liabilities to be repaid within the current or next succeeding accounting period as short-term and all others as long-term. (Part VII)

Licences. See "Privileges, licences and permits".

Liquor authorities denotes the provincial and territorial enterprises which market alcoholic beverages. (3.14 to 3.18)

Loans (uncollectable) are treated as expenditure and classified as transfers to the original debtors in the reference period in which they are deemed to be uncollectable. (5.11)

M

Minority Ownership. Where an enterprise has majority rather than complete ownership of a subsidiary, that amount of the unowned equity of the subsidiary is identified in the consolidated statements as the minority interest. (10.11)

N

National economy. Financial statistics for the national economy are produced in accordance with the System of National Accounts (SNA). This views the economy as consisting of four interacting sectors - persons, government, business and non-residents (q.v.). (8.03) Differences between FMS and SNA are described in the Note to Part VIII.

Natural resource revenue. A revenue source which identifies revenues (except income taxes and other general taxes on business) derived from the exploration, development and exploitation of natural resources. (6.02/6.08)

Non-resident sector. In the System of National Accounts all persons, businesses, non-profit institutions and governments which are not resident in Canada but which interact with the Canadian economy are assigned to this sector. (8.03)

Note. A formal promise to pay recorded by the creditor as a Note receivable and by the debtor as a Note payable. (7.07/7.15)

0

Open market. A criterion for identifying a government enterprise. Potential purchasers of its goods and/or services must be free to acquire or reject them. (3.12)

Ownership. The basic criterion for determining whether or not entities not specifically identified as governments are included in the Financial Management System. Where ownership of an entity by one or more governments and/or government agencies exceeds 50% of total proprietorship that entity is classified as part of government and included in the Financial Management System.

Own source revenue comprises that revenue raised by a government or a government enterprise from its own resources i.e. excluding transfers received from other governments or government enterprises. (6.00/10.05)

P

Payables. A liability consisting of regular expenditures of a government or government enterprise owed prior to, but not paid by, the end of a reference period. (7.09)

Payroll tax. When the proceeds of this revenue source are dedicated to discharging a particular function the tax is classified with similar dedicated levies. Thus the Quebec payroll tax is classified to "Health insurance premiums and levies". (6.06) However, if the proceeds of the tax are not so dedicated the tax is grouped with "Miscellaneous taxes". (6.07)

Personal income taxes. This revenue source identifies general and special levies on the income and on capital gains of persons and unincorporated businesses. (6.03)

Persons sector. In the System of National Accounts this sector comprises persons, households, private non-profit organizations and trusteed pension plans. (8.03)

Principal. The amount outstanding of an investment or loan.

Principal revenues. This criterion for identifying government enterprises requires that normally an enterprise's revenues from own sources (q.v.) exceed the subsidies and other sustaining transfers it receives. (3.13)

Privileges, licences and permits. A revenue source comprising set charges imposed by government as prerequisites to the performance of certain activities or the exercise of certain functions. (6.09)

Protection of persons and property. A function which covers all services to ensure the security of persons and property. (6.21)

Provincial tax revenue guarantee. An undertaking by the federal government to make general purpose transfers to recompense provinces losing revenue from redefining their income tax acts in accordance with the revisions to the Federal Income Tax Act of 1971. (5.30)

Public utilities income tax transfer. A general purpose transfer by the federal government to provinces of part of the income tax collected from non-government utilities. (5.28)

Q

Quasi-trust. A "trust" lacking one or more of the principal characteristics of a trust fund. (3.19)

R

Real property taxes. A revenue sub-source identifying the proceeds of the taxation of land and improvements. (6.04)

Receivables. An asset consisting of revenue earned prior to, but not collected by, the end of a reference period. (7.04)

Reciprocal taxation. Under agreement the federal government makes payments to participating provinces as if it were liable to certain of their consumption taxes; in return the provinces pay the equivalent of any tax or fee levied under the Excise Tax Act. (5.31)

Recovery of expenditure. The recovery of an overpayment for a good or service purchased or of an excessive transfer. (5.05)

Recreation and culture. A function showing government participation in the provision of leisure activities and facilities. (6.28)

Reference period, The period - month, quarter or year - to which a set of statistics apply.

Refund of revenue. The partial or complete cancellation of a revenue such as the refunding of taxation or of an overpayment for a good or service. (5.05)

Regional planning and development. A function which identifies expenditures on planning and zoning, community and regional development and similar activities affecting municipal and regional infrastructures.

Research establishments. A function covering government agencies, together with support of individuals and non-government organizations, engaged in pure and applied research. (6.33)

Reserves. Amounts appropriated from profits or surplus and designated for general or specific uses. Under the Financial Management System these are viewed as components of surplus and are not identified separately from it. (7.01)

Resource conservation and industrial development. A function which identifies expenditures by government to conserve and develop natural resources and to promote the growth of industry. (6.26)

Return on investment. A revenue source covering remittances of profits, interest and dividends from a government's own enterprises and from other investments. (6.11)

Revenue (Financial Management System) comprises all monies received and/or deemed to be received by government other than through borrowing or recovery of previous lending. (5.03)

Revenue (Financial Management Economic Classification) identifies the economic sector from which FMS revenue is derived. (8.06)

Revenue source. A primary classification of revenue similar to a function of expenditure. (6.00)

Royalty. In FMS, the amount payable to a government as the owner for the privilege of exploiting a resource or property. (6.08)

S

Sales of goods and services. A revenue source which identifies the proceeds from general government's commercial transactions with organizations and individuals in the private sector and with other governments. (6.10)

Security. A document such as a bond or share indicating debt or ownership. In FMS all types of security are classified to the single asset category "Securities". (7.06/7.14/7.15)

Separate existence. This criterion for identifying a government enterprise requires that it have a separate status from its parent. (3.10)

Social insurance levies. See "Health and social insurance levies".

Social services. A function which identifies expenditures made to forestall or offset situations where the well being of persons is threatened by circumstances beyond their control. (6.24)

Source and application of funds. A framework for the analysis of the funds available to a government beyond gross general revenue and for its outlays in addition to gross general expenditure. (7.19)

Special assessments. Property taxes levied on a specific group of properties to pay for a service supplied only to that group. (6.04)

Special fund. An agency (q.v.) which is an extension of a department. (3.01/3.03(b) to (g))

Specific purpose transfer. A transfer (q.v.) requiring the recipient to fulfill certain conditions to qualify for the transfer or restricting the use to which the monies may be put. (6.00)

Statement of net worth identifies the capital stock and surplus of a government enterprise. (10.12)

Statement of unappropriated surplus summarizes the financial transactions (other than revenue and expenditure) in a reference period which affect the surplus of an enterprise but cannot be assigned to appropriated or contributed surplus. (10.08)

Subsidiary. An entity with more than 50% of its rights of ownership vested in an enterprise (q.v.). The majority ownership criterion also applies to a subsidiary of a subsidiary. (3.11)

Surplus. The excess of net assets of a government enterprise over its capital stock. In addition to Unappropriated surplus it comprises (a) Appropriated surplus - the typical reserves - and (b) Contributed surplus - donations of money and/or physical assets from the parent government. (10.12)

I

Tax on payments to non-residents. A revenue source identifying collections of the federal tax on payments of dividends, interest, rents, royalties, etc. made to non-residents. (6.03)

Tax rebates and/or credits. Reductions in taxes made to assist certain classes of taxpayers, to act as incentives to particular industries or types of activity or to avoid double taxation. (5.08)

Trade Account. In FMS an outstanding receivable or payable relating to goods and/or services sold to or purchased from other than government. (7.04/7.09)

Transfer. A conveyance of monies for which the transferor receives no direct benefit. Sub-classifications are "General purpose" and "Specific purpose" (q.v.). (5.19)

Transfers to own enterprises. A function which identifies amounts paid by a government to its enterprises for operating purposes. (6.35)

Transportation and communications. A function covering all outlays for the acquisition, construction, operation and maintenance of transportation and communication facilities including related engineering and technical surveys. (6.22)

Trust account. A control account established to segregate specific revenues which may be applied only to designated expenditures. (3.19)

Trust deposit. A control account oriented towards safekeeping, surety or investment. (3.19)

Trust fund. A legally constituted trust under which the independence of the beneficiary and the trustee is clear with the trustee being in full control of the trust property. (3.19)

U

Unappropriated surplus. See "Statement of unappropriated surplus".

Unification convention. The convention under which the Financial Management System ignores the demarcations between the departments and agencies of a government and between the parent company and the subsidiaries of a government enterprise and consolidates them into a single government or enterprise. (5.01)

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